Enservco Corp
Form 10-Q
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[**X**] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number 001-36335

ENSERVCO CORPORATION

(Exact Name of registrant as Specified in its Charter)

Delaware	**84-0811316**
(State or other jurisdiction of	(IRS Employer
incorporation or organization)	Identification No.)
501 South Cherry St., Ste. 1000	
Denver, CO	**80246**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: **(303) 333-3678**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Enservco was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **X** No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes **X** No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)   Smaller reporting company **X**

Emerging growth company

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No **X**

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date.

Class	**Outstanding at May 4, 2018**
Common stock, $.005 par value	51,263,334

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENSERVCO CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands)

ASSETS	**March 31, 2018**	**December 31, 2017**
	(Unaudited)	
Current Assets		
Cash and cash equivalents	$ *1,013*	$ *391*
Accounts receivable, net	*12,823*	*11,761*
Prepaid expenses and other current assets	*837*	*868*
Inventories	*507*	*576*
Income tax receivable, current	*57*	*57*
Total current assets	*15,237*	*13,653*
Property and equipment, net	*28,923*	*29,417*
Income tax receivable, noncurrent	*57*	*57*
Other assets	*1,157*	*1,123*
TOTAL ASSETS	$ *45,374*	$ *44,250*
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ *5,799*	$ *5,465*
Current portion of long-term debt	*178*	*182*
Total current liabilities	*5,977*	*5,647*
Long-Term Liabilities		
Senior revolving credit facility	*25,320*	*27,066*
Subordinated debt	*2,244*	*2,229*
Long-term debt, less current portion	*239*	*252*
Warrant liability	*1,265*	*831*
Total long-term liabilities	*29,068*	*30,378*
Total liabilities	*35,045*	*36,025*

Commitments and Contingencies (Note 8)		
Stockholders' Equity		
Preferred stock, $.005 par value, 10,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, $.005 par value, 100,000,000 shares authorized, 51,263,334 and 51,197,989 shares issued, respectively; 103,600 shares of treasury stock; and 51,159,734 and 51,094,389 shares outstanding, respectively	*256*	*255*
Additional paid-in capital	*19,633*	*19,571*
Accumulated deficit	*(9,560*)	*(11,601*)
Total stockholders' equity	*10,329*	*8,225*
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ *45,374*	$ *44,250*

See notes to condensed consolidated financial statements.

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ENSERVCO CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(In thousands)

(Unaudited)

	For the Three Months Ended March 31, 2018	2017
Revenues		
Well enhancement services	$ 19,285	$ 11,984
Water transfer services	995	752
Water hauling services	841	885
Other	-	154
Total revenues	21,121	13,775
Expenses		
Well enhancement services	13,091	8,449
Water transfer services	957	676
Water hauling services	948	913
Functional support and other	145	341
Sales, general, and administrative expenses	1,370	994
Patent litigation and defense costs	20	43
Severance and transition costs	40	-
Depreciation and amortization	1,589	1,576
Total operating expenses	18,160	12,992
Income from Operations	2,961	783
Other (Expense) Income		
Interest expense	(500)	(710)
Other (expense) income	(420)	4
Total other expense	(920)	(706)
Income Before Tax Expense	2,041	77
Income Tax Expense	-	(27)
Net Income	$ 2,041	$ 50
Earnings per Common Share - Basic	$ 0.04	$ -
Earnings per Common Share – Diluted	$ 0.04	$ -

Basic weighted average number of common shares outstanding	*51,155*	*51,068*
Add: Dilutive shares assuming exercise of options and warrants	*1,793*	-
Diluted weighted average number of common shares outstanding	*52,948*	*51,068*

See notes to condensed consolidated financial statements.

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ENSERVCO CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	For the Three Months Ended March 31, 2018	2017
OPERATING ACTIVITIES		
Net income	$2,041	$50
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,589	1,576
Deferred income taxes	-	90
Stock-based compensation	73	116
Change in fair value of warrant	434	-
Amortization of debt issuance costs and discount	38	256
Provision for bad debt expense	33	29
Changes in operating assets and liabilities		
Accounts receivable	(1,095)	(5,199)
Inventories	68	(2)
Prepaid expense and other current assets	(13)	75
Income taxes receivable	-	224
Other assets	(9)	11
Accounts payable and accrued liabilities	334	393
Net cash provided by (used in) operating activities	3,493	(2,381)
INVESTING ACTIVITIES		
Purchases of property and equipment	(1,104)	(621)
Proceeds from insurance claims	52	-
Net cash used in investing activities	(1,052)	(621)
FINANCING ACTIVITIES		
Net line of credit borrowings	(1,787)	2,690
Stock issuance costs and registration fees	(10)	-
Repayment of long-term debt	(17)	(116)
Payment of debt issuance costs for credit facilities	(5)	(50)
Net cash (used in) provided by financing activities	(1,819)	2,524
Net Increase (Decrease) in Cash and Cash Equivalents	622	(478)
Cash and Cash Equivalents, beginning of period	391	621

Cash and Cash Equivalents, end of period	$*1,013*	$*143*
Supplemental cash flow information:		
Cash paid for interest	$437	$*37*
Cash (received) paid for taxes	$-	$*(222*)
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Non-cash proceeds from revolving credit facilities	$*40*	$*415*

See notes to condensed consolidated financial statements.

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ENSERVCO CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Note *1* – Basis of Presentation

Enservco Corporation ("Enservco") through its wholly-owned subsidiaries (collectively referred to as the "Company", "we" or "us") provides various services to the domestic onshore oil and natural gas industry. These services include frac water heating, hot oiling and acidizing (well enhancement services); water transfer and water treatment services (water transfer services); and water hauling, fluid disposal, frac tank rental (water hauling services).

The accompanying unaudited condensed consolidated financial statements have been derived from the accounting records of Enservco Corporation, Heat Waves Hot Oil Service LLC ("Heat Waves"), Dillco Fluid Service, Inc. ("Dillco"), Heat Waves Water Management LLC ("HWWM"), HE Services LLC ("HES"), and Real GC LLC ("Real GC") (collectively, the "Company") as of *March 31, 2018* and *December 31, 2017* and the results of operations for the *three* months ended *March 31, 2018* and *2017.*

The below table provides an overview of the Company's current ownership hierarchy:

Name	State of Formation	Ownership	Business
Dillco Fluid Service, Inc. ("Dillco")	Kansas	100% by Enservco	Oil and natural gas field fluid logistic services.
Heat Waves Hot Oil Service LLC ("Heat Waves")	Colorado	100% by Enservco	Oil and natural gas well services, including logistics and stimulation.
Heat Waves Water Management LLC ("HWWM")	Colorado	100% by Enservco	Water Transfer and Water Treatment Services.
HE Services LLC ("HES")	Nevada	100% by Heat Waves	No active business operations. Owns construction equipment used by Heat Waves.
Real GC, LLC ("Real GC")	Colorado		

100% by Heat Waves	No active business operations. Owns real property in Garden City, Kansas that is utilized by Heat Waves.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form *10*-Q and Article *8* of Regulation S-*X.* Accordingly, they do *not* include all of the disclosures required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, all of the normal and recurring adjustments necessary to fairly present the interim financial information set forth herein have been included. The results of operations for interim periods are *not* necessarily indicative of the operating results of a full year or of future years.

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and follow the same accounting policies and methods of their application as the most recent annual financial statements. These interim financial statements should be read in conjunction with the financial statements and related footnotes included in the Annual Report on Form *10*-K of Enservco Corporation for the year ended *December 31, 2017.* All inter-company balances and transactions have been eliminated in the accompanying condensed consolidated financial statements.

The accompanying unaudited condensed consolidated balance sheet at *December 31, 2017* has been derived from the audited financial statements at that date but does *not* include all of the information and notes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form *10*-K for the year ended *December 31, 2017.*

Note 2 - Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of *three* months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. Enservco maintains its excess cash in various financial institutions, where deposits *may* exceed federally insured amounts at times.

Accounts Receivable

Accounts receivable are stated at the amounts billed to customers, net of an allowance for uncollectible accounts. The Company provides an allowance for uncollectible accounts based on a review of outstanding receivables, historical collection information and existing economic conditions. The allowance for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical collection experience related to accounts receivable coupled with a review of the current status of existing receivables. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance. As of *March 31, 2018,* and *December 31, 2017,* the Company had an allowance for doubtful accounts of approximately $*65,000* and *$70,000,* respectively. For the *three* months ended *March 31, 2018* and *2017,* the Company recorded bad debt expense (net of recoveries) of approximately $*33,000* and *$29,000,* respectively.

Inventories

Inventory consists primarily of propane, diesel fuel and chemicals that are used in the servicing of oil wells and is carried at the lower of cost or net realizable value in accordance with the *first* in, *first* out method (FIFO). The Company periodically reviews the value of items in inventory and provides write-downs or write-offs, of inventory based on its assessment of market conditions. Write-downs and write-offs are charged to cost of goods sold. For the *three* months ended *March 31, 2018* and *2017, no* amounts were expensed for write-downs and write-offs.

Property and Equipment

Property and equipment consists of (*1*) trucks, trailers and pickups; (*2*) water transfer pumps, pipe, lay flat hose, trailers, and other support equipment; (*3*) real property which includes land and buildings used for office and shop facilities and wells used for the disposal of water; and (*4*) other equipment such as tools used for maintaining and repairing vehicles, office furniture and fixtures, and computer equipment. Property and equipment is stated at cost less accumulated depreciation. The Company capitalizes interest on certain qualifying assets that are undergoing activities to prepare them for their intended use. Interest costs incurred during the fabrication period are capitalized and amortized over the life of the assets. The Company charges repairs and maintenance against income when incurred and capitalizes renewals and betterments, which extend the remaining useful life, expand the capacity or efficiency of the assets. Depreciation is recorded on a straight-line basis over estimated useful lives of *5* to *30* years.

Any difference between net book value of the property and equipment and the proceeds of an assets' sale or settlement of an insurance claim is recorded as a gain or loss in the Company's earnings.

Leases

The Company conducts a major part of its operations from leased facilities. Each of these leases is accounted for as an operating lease. Normally, the Company records rental expense on its operating leases over the lease term as it becomes payable. If rental payments are *not* made on a straight-line basis, per terms of the agreement, the Company records a deferred rent expense and recognizes the rental expense on a straight-line basis throughout the lease term. The majority of the Company's facility leases contain renewal clauses and expire through *June 2022.* In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. The Company amortizes leasehold improvements over the shorter of the life of the lease or the life of the improvements. As of *March 31, 2018,* and *December 31, 2017,* the Company had a deferred rent liability of approximately *$93,000* and *$96,000,* respectively.

The Company has leased equipment in the normal course of business, which are recorded as operating leases. The Company recorded rental expense on equipment under operating leases over the lease term as it becomes payable; there were *no* rent escalation terms associated with these equipment leases. The equipment leases contain purchase options that allow the Company to purchase the leased equipment at the end of the lease term, based on the market price of the equipment at the time of the lease termination. There are *no* significant equipment leases outstanding as of *March 31, 2018.*

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Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset *may not* be recovered. The Company reviews both qualitative and quantitative aspects of the business during the analysis of impairment. During the quantitative review, the Company reviews the undiscounted future cash flows in its assessment of whether or *not* long-lived assets have been impaired. *No* impairments were recorded during the *three* months ended *March 31, 2018* and *2017.*

Revenue Recognition

As described below, we adopted Accounting Standards Update *2014-09,* Revenue - Revenue from Contracts with Customers, Accounting Standards Codification ("ASC") Topic *606,* beginning *January 1, 2018,* using the modified retrospective approach, which we have applied to contracts within the scope of the standard. The Company evaluates revenue when we can identify the contract with the customer, the performance obligations in the contract, the transaction price, and we are certain that the performance obligations have been met. Revenue is recognized when the service has been provided to the customer, which includes estimated amounts for services rendered but *not* invoiced at the end of each accounting period. The vast majority of the Company's services and product offerings are short-term in nature. The time between invoicing and when payment is due under these arrangements is generally *30* to *60* days.

Revenue is *not* generated from contractual arrangements that include multiple performance obligations.

Revenue is recognized for certain projects that take more than one day projects over time based on the amount of days during the reporting period and the agreed upon price as work progresses on each project. Revenue that has been earned but *not* yet invoiced at *March 31, 2018* and *December 31, 2017* was *$1.4* million and *$1.7* million, respectively. Such amounts are included within Accounts receivable, net in the Condensed Consolidated Balance Sheets.

Disaggregation of revenue

See Note *11* - Segment Reporting for disaggregation of revenue.

Earnings (Loss) Per Share

Earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income (loss) by the diluted weighted average number of common shares. The diluted weighted average number of common shares is computed using the treasury stock method for common stock that *may* be issued for outstanding stock options and warrants.

As of *March 31, 2018,* and *2017*, there were outstanding stock options and warrants to acquire an aggregate of *5,467,334* and *4,361,168* shares of Company common stock, respectively, which have a potentially dilutive impact on earnings per share. As of *March 31, 2018,* the aggregate intrinsic value of outstanding stock options and warrants was approximately *$2.6* million. For the *three* months ended *March 31, 2018,* the incremental shares of options and warrants to be included in the calculation of diluted earnings per share had a dilutive impact on the Company's earnings per share of *1,793,237* shares. For the *three* months ended *March 31, 2017,* the dilutive share instruments did *not* have an intrinsic value, as a result, were *not* included in the diluted share calculation.

Loan Fees and Other Deferred Costs

In the normal course of business, the Company enters into loan agreements and amendments thereto with its primary lending institutions. The majority of these lending agreements and amendments require origination fees and other fees in the course of executing the agreements. For all costs associated with the execution of the lending agreements, the Company recognizes these as capitalized costs and amortizes these costs over the term of the loan agreement. All other costs *not* associated with the execution of the loan agreements are expensed as incurred. As of *March 31, 2018,* we had approximately $*224,000* in unamortized loan fees and other deferred costs associated with the *2017* Credit Agreement, which we expect to charge to expense ratably over the *three*-year term of that agreement.

Derivative Instruments

From time to time, the Company has interest rate swap agreements in place to hedge against changes in interest rates. The fair value of the Company's derivative instruments are reflected as assets or liabilities on the balance sheet. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative instrument and the resulting designation. Transactions related to the Company's derivative instruments accounted for as hedges are classified in the same category as the item hedged in the consolidated stat