Enservco Corp
Form 10-Q
May 13, 2013

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

MARK ONE

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

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 0-9494

ENSERVCO CORPORATION

(Exact Name of registrant as Specified in its Charter)

Delaware	**84-0811316**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
501 South Cherry St., Ste. 320 Denver, CO	**80246**
(Address of principal executive offices)	(Zip Code)

Issuer'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**

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 1, 2013

Common stock, $.005 par value	32,188,269

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Enservco Corporation

Condensed Consolidated Balance Sheets

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 803,271	$ 533,627
Accounts receivable, net	13,420,456	7,791,342
Prepaid expenses and other current assets	1,288,099	802,020
Inventories	264,884	273,103
Deferred tax asset	142,745	153,466
Total current assets	15,919,455	9,553,558
Property and Equipment, net	13,801,019	15,020,890
Fixed Assets Held for Sale, net	71,342	304,429
Non-Competition Agreements, net	15,000	30,000
Goodwill	301,087	301,087
Long-term portion of interest rate swap	22,374	16,171
Other Assets	723,068	630,891
TOTAL ASSETS	$ 30,853,345	$ 25,857,026
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 3,520,176	$ 3,585,785
Income taxes payable	1,509,297	-
Line of credit borrowings	1,234,447	2,151,052
Current portion of long-term debt	2,229,883	2,236,343
Current portion of interest rate swap	13,476	24,048
Total current liabilities	8,507,279	7,997,228
Long-Term Liabilities		
Deferred rent payable	20,127	20,860
Long-term debt, less current portion	9,909,737	10,570,928
Deferred income taxes, net	1,586,869	451,662

Total long-term liabilities	11,516,733	11,043,450
Total liabilities	20,024,012	19,040,678
Commitments and Contingencies		
Stockholders’ Equity		
Common and preferred stock. $.005 par value		
Authorized: 100,000,000 common shares and 10,000,000 preferred shares		
Issued: 31,928,894 common shares and -0- preferred shares		
Treasury Stock: 103,600 common shares		
Issued and outstanding: 31,825,294 common shares, and -0- preferred shares, at March 31, 2013 and December 31, 2012, respectively	159,127	159,127
Additional paid-in-capital	9,933,085	9,864,363
Accumulated earnings (deficit)	731,694	(3,202,337)
Accumulated other comprehensive income	5,427	(4,805)
Total stockholders’ equity	10,829,333	6,816,348
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$30,853,345	$25,857,026

See notes to condensed consolidated financial statements.

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Enservco Corporation

Condensed Consolidated Statements of Operations and Comprehensive Income

	For the Three Months Ended March 31, 2013 (Unaudited)	2012 (Unaudited)
Revenues	$ 18,567,166	$ 9,527,955
Cost of Revenue	10,401,143	6,579,429
Gross Profit	8,166,023	2,948,526
Operating Expenses		
General and administrative expenses	907,073	903,360
Depreciation and amortization	563,836	1,323,797
Total operating expenses	1,470,909	2,227,157
Income from Operations	6,695,114	721,369
Other Income (Expense)		
Interest expense	(314,052)	(208,991)
Gain on sale and disposal of equipment	306,457	-
Gain on sale of investments	-	11,762
Other	14,113	58,464
Total other income (expense)	6,518	(138,765)
Income From Continuing Operations Before Tax Expense	6,701,632	582,604
Income Tax Expense	(2,695,061)	(203,847)
Income From Continuing Operations	4,006,571	378,757
Discontinued Operations		
Loss from discontinued operations	(118,918)	(165,361)
Income tax benefit	46,378	64,491
Loss on discontinued operations, net of tax	(72,540)	(100,870)
Net Income	$ 3,934,031	$ 277,887
Other Comprehensive Gain (Loss)		
Unrealized loss on available-for-sale securities, net of tax	-	(21,215)
Unrealized gain on interest rate swap, net of tax	10,232	-
Reclassification into earnings, net of tax	338	-
Total other comprehensive gain (loss)	10,570	(21,215)

Comprehensive Income	$ 3,944,601	$ 256,672
Earnings per Common Share – Basic		
Income from continuing operations	$ 0.12	$ 0.01
Discontinued operations	-	-
Net Income	$ 0.12	$ 0.01
Earnings per Common Share – Diluted		
Income from continuing operations	$ 0.11	$ 0.01
Discontinued operations	-	-
Net Income	$ 0.11	$ 0.01
Basic weighted average number of common shares outstanding	31,825,294	21,778,866
Add: Dilutive shares assuming exercise of options and warrants	3,172,940	1,240,747
Diluted weighted average number of common shares outstanding	34,998,234	23,019,613

See notes to condensed consolidated financial statements.

Enservco Corporation

Condensed Consolidated Statements of Cash Flows

	For the Three Months Ended March 31, 2013 (Unaudited)	2012 (Unaudited)
OPERATING ACTIVITIES		
Net income	$3,934,031	$277,887
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization (includes $-0- and $77,395 from discontinued operations, respectively)	563,836	1,401,192
Gain on sale and disposal of equipment	(306,457)	-
Realized gain on sale of marketable securities	-	(11,762)
Deferred income taxes	1,156,848	75,481
Stock-based compensation	38,696	44,636
Issuance of warrants	30,023	-
Bad debt expense (recoveries)	126,234	(1,739)
Changes in operating assets and liabilities		
Accounts receivable	(5,755,348)	(1,638,199)
Inventories	8,219	(28,853)
Prepaids and other current assets	(486,077)	(209,281)
Other non-current assets	(98,380)	(75,865)
Accounts payable and accrued expenses	(65,609)	750,090
Income taxes payable	1,509,297	-
Deferred rent payable	(733)	(296)
Net cash provided from operating activities	654,580	583,291
INVESTING ACTIVITIES		
Purchases of property and equipment	(591,753)	(1,421,912)
Proceeds from sale and disposal of equipment	1,802,333	-
Sales of available-for-sale securities	-	110,462
Net cash provided (used) in investing activities	1,210,580	(1,311,450)
FINANCING ACTIVITIES		
Net line of credit (repayments) borrowings	(916,605)	725,000
Proceeds from issuance of long-term debt	-	1,359,907
Repayment of long-term debt	(667,653)	(854,360)
Payments upon interest rate swap settlements	(11,258)	-
Net cash (used) provided from financing activities	(1,595,516)	1,230,547
Net Increase in Cash and Cash Equivalents	269,644	502,388

Cash and Cash Equivalents, Beginning of Period	533,627	417,005
Cash and Cash Equivalents, End of Period	$803,271	$919,393
Supplemental cash flow information consists of the following:		
Cash paid for interest	$235,629	$198,689
Cash paid for taxes	$-	$-
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Increase in fair value of available-for-sale securities	$-	$29,098

See notes to condensed consolidated financial statements.

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Notes to the Condensed Consolidated Financial Statements

Note 1 – Basis of Presentation

The accompanying condensed consolidated financial statements have been derived from the accounting records of Enservco Corporation (formerly Aspen Exploration Corporation), Heat Waves Hot Oil Services LLC ("Heat Waves"), Dillco Fluid Service, Inc. ("Dillco"), Trinidad Housing LLC, HE Services LLC, Aspen Gold Mining Company, Enservco Frac Services LLC, Heat Waves LLC, and Real GC LLC (collectively, the "Company") as of December 31, 2012 and March 31, 2013 and the results of operations for the three months ending March 31, 2013 and 2012. Any references to "Aspen" in this report are intended to provide reference for certain actions and events that took place prior to the Merger Transaction and are included to give context to the reader. References to "Enservco" and the "Company" are intended to apply to the Company as a whole and on a post Merger Transaction basis.

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.
Heat Waves Hot Oil Service LLC ("Heat Waves")	Colorado	100% by Dillco	Oil and natural gas well services, including logistics and stimulation.
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.
Trinidad Housing, LLC ("Trinidad Housing")	Colorado	100% by Dillco.	No active business operations.
Enservco Frac Services, LLC	Delaware	100% by Enservco	No active business operations.
Aspen Gold Mining Company	Colorado	100% by Enservco	No active business operations.
Heat Waves, LLC	Colorado	100% by Dillco	No active business operations.

On July 27, 2010 Dillco became a wholly owned subsidiary of Aspen (the “Merger Transaction”). At the time of the Merger Transaction Aspen was not engaged in active business operations whereas Dillco conducted operations both directly and through subsidiary entities.

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 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, 2012. All significant inter-company balances and transactions have been eliminated in the accompanying consolidated financial statements.

During the fourth quarter of 2012, the Company made the decision to discontinue its Heat Waves' well-site construction and roustabout line of service. As part of this decision, the Company had the intent and made plans during 2012 to sell off the trucks and equipment used in this line of service. The Company has classified these fixed assets as *Fixed assets held for sale* in our consolidated balance sheet as of December 31, 2012 and within the condensed consolidated balance sheet as of March 31, 2013. The Company has disclosed all other major classifications of assets and liabilities associated with these discontinued operations, other than the *Fixed assets held for sale*, within the notes to the financial statements; see Note 3 for further details. The Company has also delineated all results of operations as continuing operations or discontinued operations, from the well-site construction and roustabout line of service, for the three months ending March 31, 2013 and 2012. As such, the operating results of this line of service are reported as *Loss on discontinued operations, net of tax* in the consolidated statements of operations for all periods presented; see Note 3 for further details. The Company has not separately disclosed cash flows pertaining to discontinued operations within the accompanying statements of cash flows for the periods ending March 31, 2013 and December 31, 2012.

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.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. The Company provides a reserve for doubtful accounts based on a review of outstanding receivables, historical collection information and existing economic conditions. The provision 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 performance that is tracked by the Company on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance. As of March 31, 2013 the Company has recorded an allowance for doubtful accounts of $185,000. For the three months ended March 31, 2013 and 2012, the Company recorded net bad debt expense (recoveries) of $126,234 and $(1,739), respectively.

Inventory

Inventory consists primarily of diesel fuel and chemicals that are used in the servicing of oil wells and is carried at the lower of cost or market in accordance with the first in, first out method. 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.

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 looks primarily to the discounted future cash flows in its assessment of whether or not long-lived assets have been impaired. No impairments were recorded during the three month periods ended March 31, 2013 and 2012.

Property and Equipment

Property and equipment consists of (1) trucks, trailers and pickups; (2) trucks that are in various stages of fabrication; (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 charges repairs and maintenance against income when incurred and capitalizes renewals and betterments, which extend the remaining useful life or expand the capacity of the assets. Depreciation is recorded on a straight-line basis over estimated useful lives of 5 to 30 years.

During the year ended December 31, 2012, the Company reassessed the estimated useful lives of its trucks and equipment (including its well servicing units and equipment, fluid services equipment, construction equipment, and other vehicles) as well as the estimated useful lives of its disposal wells. Through this assessment, the Company increased the useful lives of its trucks and equipment from 5-7 years to 10 years, and increased the useful lives of its disposal wells from 7-10 years to 15 years. The Company has determined that this adjustment to its useful lives is a change in accounting estimate and has accounted for the change prospectively; i.e. the accounting change impacts interim reporting periods within fiscal year 2012 and future periods. For the three months ended March 31, 2013, the change in accounting estimate decreased depreciation for the period by approximately $860,000 (pre-tax difference), increasing Income from Operations and Net Income by this amount, or by approximately $0.03 earnings per basic and $0.02 earnings per diluted common share, respectively.

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, in accordance with the 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 November 2016. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

The Company is leasing a number of trucks and equipment in the normal course of business, which are recorded as operating leases. The Company records rental expense on its equipment operating leases over the lease term as it becomes payable; there are no rent escalation terms associated with these equipment leases. On a number of the equipment leases purchase options exist allowing 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 and exercised purchase option. The majority of the Company's equipment leases contain renewal clauses and expire through June 2017.

The Company has also entered into several capital leases in order to acquire trucks and equipment. Each of these leases allow the Company to retain title of the equipment leased through the lease agreements upon final payment of all principal and interest due. The Company records the assets and liabilities associated with these leases at the present value of the minimum lease payments per the lease agreement. The assets are classified as property and equipment and the liabilities are classified as current and long-term liabilities based on the contractual terms of the agreements and their associated maturities.

Revenue Recognition

The Company recognizes revenue when evidence of an arrangement exists, the fee is fixed and determinable, services are provided, and collection is reasonably assured.

Earnings Per Share

Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income 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.

As of March 31, 2013 and 2012, the Company had outstanding Stock-based Option Awards and Warrants to acquire an aggregate of 8,651,170 and 2,875,000 shares of Company common stock, respectively, which have a potentially dilutive impact on earnings per share. For the three months ended March 31, 2013 and 2012, the incremental shares of the 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 3,172,940 and 1,240,747 shares, respectively.

Intangible Assets

Non-Competition Agreements. The non-competition agreements with the sellers of Heat Waves and Dillco have finite lives and are being amortized over a five-year period (Note 4). Amortization expense is expected to be recognized through June 2013.

Goodwill. Goodwill represents the excess of the cost over the fair value of net assets acquired, including identified intangible assets, recorded in connection with the acquisitions of Heat Waves. Goodwill is not amortized but is assessed for impairment at least annually.

Impairment. The Company assesses goodwill for impairment at the reporting unit level on an annual basis and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value below its carrying amount. Guidance allows a qualitative assessment of impairment to determine whether it is more-likely-than-not that goodwill is impaired. If it is determined that it is more-likely-than-not that and impairment exists, accounting guidance requires that the impairment test be performed through the application of a two-step fair value test. The Company utilizes this method and recognizes a goodwill impairment loss in the event that the fair value of the reporting unit does not exceed its carrying value. During fiscal year ended December 31, 2012, the Company performed the annual impairment test and determined that no impairment existed. For the three month periods ended March 31, 2013 and 2012, the Company did not note any events that occurred, nor did any circumstances change, that would result in an impairment of goodwill as of the last annual test performed.

Marketable Securities

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale. Held-to-maturity securities are recorded as either short term or long term on the Balance Sheet, based on contractual maturity date and are stated at amortized cost. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Debt and marketable equity securities not classified as held to maturity or as trading, are classified as available for sale, and are carried at fair value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in stockholders' equity.

The fair value of substantially all marketable securities is determined in reference to quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market.

Loan Fees and Other Deferred Costs

In the normal course of business, the Company often enters into loan agreements with its primary lending institutions. The majority of these lending agreements 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 using the effective interest method. These deferred costs are classified on the balance sheet as current or long-term assets based on the contractual terms of the loan agreements. All other costs not associated with the execution of the loan agreements are expensed as incurred.

Deferred Rent Liability

The Company recognizes rent expense on a straight-line basis over the life of the rental agreement. Deferred rent liability is recognized as the difference between rent expense recorded and actual cash payments made and is recorded as a Long-Term Liability as a separate line item on the accompanying consolidated Balance Sheet. As of March 31, 2013 and December 31, 2012, deferred rent liability totaled $20,127 and $20,860, respectively.

Income Taxes

The Company recognizes deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities will be recognized in income in the period that includes the enactment date. Deferred income taxes are classified as a net current or non-current asset or liability based on the classification of the related asset or liability for financial reporting purposes. A deferred tax asset or liability that is not related to an asset or liability for financial reporting is classified according to the expected reversal date. The Company records a valuation allowance to reduce deferred tax assets to an amount that it believes is more likely than not expected to be realized.

The Company accounts for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company measures the tax benefits recognized in the financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, the Company is required to make many subjective assumptions and judgments regarding income tax exposures. Interpretations of and guidance surrounding income tax law and regulations change over time and may result in changes to the Company's subjective assumptions and judgments which can materially affect amounts recognized in the consolidated balance sheets and consolidated statements of income. The result of the reassessment of the Company's tax positions did not have an impact on the consolidated financial statements.

Interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expenses. No interest or penalties have been assessed as of March 31, 2013. The Company files tax returns in the United States and in the states in which it conducts its business operations. The tax years 2009 through 2012 remain open to examination in the taxing jurisdictions to which the Company is subject.

Fair Value

The Company follows authoritative guidance that applies to all financial assets and liabilities required to be measured and reported on a fair value basis. The Company also applies the guidance to non-financial assets and liabilities measured at fair value on a nonrecurring basis, including non-competition agreements and goodwill. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions of what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The Company did not change its valuation techniques nor were there any transfers between hierarchy levels during the three months ended March 31, 2013. The financial and nonfinancial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

Level 1:	Quoted prices are available in active markets for identical assets or liabilities;
Level 2:	Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or
Level 3:	Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

Stock-based Compensation

The Company uses the fair value method of accounting for stock-based compensation, where Stock-based compensation costs are measured at fair value, determined using the stock price on the date of grant, and charged to expense over the requisite service period. The effect of this guidance is described in Note 11.

Management Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Discontinued Operations

During the fourth quarter of 2012, the Company made the decision to discontinue its Heat Waves' well-site construction and roustabout line of service.

The following table provides the components of discontinued operations, net of tax:

	For the Three Months Ended March 31,	
	2013	2012
Revenues	$ -	$ 10,039
Cost of Revenue	117,955	97,255
Gross Profit	(117,955)	(87,216)
Operating Expenses		
Depreciation and amortization	-	77,395
Loss from Operations	(117,955)	(164,611)
Other Expense		
Interest expense	963	750
Loss from discontinued operations	(118,918)	(165,361)
Income tax benefit	46,378	64,491
Loss on discontinued operations, net of tax	$ (72,540)	$ (100,870)

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The following table provides the major classes of assets and liabilities components of discontinued operations, as of:

	March 31, 2013	December 31, 2012
Accounts Receivable	$ 18,462	$ 153,754
Fixed Assets Held for Sale	71,342	304,429
Total Discontinued Assets	$ 89,804	$ 458,183
Accounts payable and accrued liabilities	$ -	$ 219,882
Total Discontinued Liabilities	$ -	$ 219,882

On March 14, 2013, the Company sold several trucks and equipment used in its construction division, which were classified as fixed assets held for sale as of December 31, 2012, for cash proceeds of $534,000. The book value at time of sale of these assets was approximately $233,000 and commissions of $10,000 were paid upon sale of the trucks and equipment. As such, for the three months ended March 31, 2013, the Company recorded a gain of approximately $291,000 on the sale of these fixed assets held for sale.

Note 4 - Non-Competition Agreements

Non-competition agreements consist of the following as of March 31, 2013:

Non-competition agreements - net, at January 1, 2012	$180,000
Amortization for the year ended December 31, 2012	(150,000)
Non-competition agreements - net, at December 31, 2012	30,000
Amortization for the three months ended March 31, 2013	(15,000)
Non-competition agreements - net, at March 31, 2013	$15,000

Amortization expense for the three months ended March 31, 2013 and 2012 totaled $15,000 and $60,000, respectively.

Future amortization expense on these non-competition agreements will be $15,000 for the three months ending June 30, 2013.

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Note 5 - Property and Equipment

Property and equipment consists of the following at:

	March 31, 2013	December 31, 2012
Trucks and vehicles	$21,872,099	$23,933,669
Other equipment	2,772,304	2,781,903
Buildings and improvements	2,328,477	2,403,477
Trucks in process	877,280	1,110,356
Capitalized truck leases	455,093	455,093
Land	596,420	601,420
Disposal wells	367,330	667,330
Total property and equipment	29,269,003	31,953,248
Accumulated depreciation	(15,467,984)	(16,932,358)
Property and equipment - net	$13,801,019	$15,020,890

Depreciation expense on property and equipment for the three months ended March 31, 2013 and 2012 totaled $548,836 and $1,263,797, respectively.

Note 6 – Fixed Assets Held for Sale

During the year ended December 31, 2012, the Company made the decision to exit completely from its Heat Waves' well-site construction and roustabout line of service. As the Company had the intent, and made the plan, to dispose of or sell the fixed assets associated with this component of its business operations during the year ended December 31, 2012, it reclassified the fair value of the fixed assets within this business component as *Fixed Assets Held for Sale* on its accompanying Balance Sheet as of December 31, 2012 and as March 31, 2013.

Assets Held for Sale consists of the following at:

	March 31, 2013	December 31, 2012
Trucks and vehicles	$428,332	$1,655,413

Accumulated depreciation	(356,990)	(1,350,984)
Assets held for sale - net	$71,342	$304,429

Depreciation expense on assets held for sale for the three months ended March 31, 2013 and 2012 totaled $-0- and $77,395, respectively.

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Note 7 – Long-Term Debt

Long-term debt consists of the following as of:

	March 31, 2013	December 31, 2012
Term Loan entered into as part of the debt refinancing in November 2012 with an original principal balance of $11.0 million, payable in thirty-five fixed monthly principal installments of $130,952 beginning November 2012, with the remaining principal due November 2, 2015. Variable rate interest of 4.25% plus 1 Month Libor, collateralized by equipment, inventory, and accounts of the Company, entered into by the Company and two of its subsidiaries, Heat Waves Hot Oil Service, LLC and Dillco Fluid Service, Inc. (all as borrowers), and subject to financial covenants.	$ 10,476,192	$ 10,738,096
Real Estate Loan for a facility in North Dakota entered into with an original principal balance of $678,750. Principal balance amended to $705,000 during February 2012 and amended again during November 2012 to increase the principal balance by $47,000. Upon the November 2012 amendment, principal and interest payments of $7,416 beginning on December 16, 2012 and ending May 16, 2022. Interest is calculated as Prime plus 3.5% with a 4.75% floor (4.75% at March 31, 2013). Loan is collateralized by land and property purchased with the loan.	724,562	738,097
Note payable entered into with a lending institution in order to purchase field equipment. Equipment was sold to a third-party on March 25, 2013.	-	326,964
Note payable to the seller of Heat Waves. The note was garnished by the Internal Revenue Service ("IRS") in 2009 and is due on demand; payable in monthly installments of $3,000 per agreement with the IRS.	305,000	314,000
Mortgage payable to a bank, interest at 7.25%, due in monthly payments through February 2015 with a balloon payment of $111,875 on March 15, 2015, secured by land, guaranteed by one of the Company's stockholders.	194,881	204,941
Note payable entered into with a lending institution in order to purchase field pickup trucks, interest at a fixed rate of 8.05%. Term of 60 months, due in monthly installments of $4,688 through September 2016, secured by equipment purchase with the note.	170,951	181,413
Mortgage payable to a bank, interest at 5.9%, payable in monthly payments through January 2017 with a balloon payment of $88,118 on February 1, 2017, secured by land.	134,844	137,507
Notes payable to a vehicle finance company, interest at fixed rates from 4.89% to 10.25%, due in monthly installments through August 2015, secured by vehicles,	57,844	68,476

guaranteed by one of the stockholders.		
Capital leases entered into with a leasing company in order to purchase trucks and trailers, interest at a fixed rate of 5%. Truck lease term of 24 months, due in monthly installments through September 2012. Trailer lease term of 36 months, payments due in monthly installments through September 2013.	41,715	62,308
Note payable entered into with a lending institution in order to purchase equipment, interest at a fixed rate of 8.2%. Truck lease term of 60 months, due in monthly installments through January 2017, secured by equipment purchase with the note.	33,631	35,469
Total	12,139,620	12,807,271
Less current portion	(2,229,883)	(2,236,343)
Long-term debt, net of current portion	$9,909,737	$10,570,928

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Aggregate maturities of debt are as follows:

Twelve Months Ending March 31,	
2014	$2,229,883
2015	1,872,334
2016	7,351,202
2017	111,500
2018	155,130
Thereafter	419,571
Total	$12,139,620

Revolving Line of Credit

As of March 31, 2013 and December 31, 2012, the outstanding balance on the revolving line of credit with our primary lender was $1,234,447 and $2,151,052, respectively.

Covenant Compliance

At March 31, 2013, the Company did not meet one of the covenants imposed by the loan agreements with PNC Bank, National Association ("PNC"), associated with limits imposed on the aggregate amount of lease expense allowed on an annual basis, which resulted in an event of default under the loan documents. PNC has waived the effect of this event of default and has agreed to modify the debt covenants of the loan agreements for future reporting periods for the covenant which was in default at March 31, 2013. As a result of the waiver, no default was declared. The Company believes that it is in line to meet the modified debt covenant and all other future covenant requirements.

Note 8 – Income Taxes

Income tax expense during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income, plus any significant unusual or infrequently occurring items which are recorded in the interim period. The provision for income taxes for the three months ended March 31, 2013 and 2012 differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 34% to pre-tax income primarily because of state income taxes and estimated permanent differences.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in various jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is obtained, additional information becomes known or as the tax environment changes.

Note 9 – Commitments and Contingencies

Operating Leases

The Company leases six facilities under lease commitments that expire through November 2016, and also leases trucks and equipment under several equipment lease commitments that expire through June 2017; all of these facility and equipment leases are accounted for as operating leases. Future minimum lease commitments for these operating lease commitments are as follows:

Twelve Months Ending March 31,	
2014	$872,560
2015	742,319
2016	539,226
2017	173,548
2018	22,800
Total	$2,350,453

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Capital Leases

The Company has entered into capital leases for five water transport units (each unit includes one truck and one trailer), which have been included in Property and Equipment (Note 5) and are summarized in the table below as of March 31, 2013:

Capitalized Trucks	$218,807
Capitalized Trailers	236,286
Less: Accumulated Depreciation	(164,650)
Net Assets Under Capital Leases	$290,433

The following is a summary of the future minimum lease payments under capital leases as of March 31, 2013:

Twelve Months Ending March 31,	Minimum Lease Payment
2014	$ 42,240
2015	-
Total minimum lease payments	42,240
Less: Interest	(525)
Net minimum lease payments	41,715
Less: Current portion	(41,715)
Long-term portion of minimum lease payments	$ -

Note 10 – Warrants

2010 Warrants

On July 28, 2010, the Company entered into an agreement with an investor relations firm and as part of the compensation paid to this firm, pursuant to that agreement, granted each of the principals of the firm a warrant to purchase 112,500 shares of the Company's common stock (a total of 225,000 shares). The warrants are exercisable at $0.49 per share for a four year term. Each of the warrants may be exercised on a cashless basis. The warrants also provide that subject to various conditions, the holders have piggy-back registration rights with respect to the shares of common stock that may be acquired upon the exercise of the warrants.

The fair value of each warrant is estimated on the date of issuance using the Black-Scholes option pricing model. The grants issued in 2010 were valued using the following weighted average assumptions: no dividend yield, expected volatility of 96.4%, risk free interest rate of 1.07% and term of 4 years. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods through the date of issuance, equal to the contractual warrant term. The warrant term was based on the life of the warrant as stated on the warrant agreement. With a stock price of $0.53 on the date of issuance, these warrants had a grant date fair-value of $0.36 per share. These warrants are classified as equity instruments on the balance sheet at December 31, 2012 and March 31, 2013.

As of December 31, 2010 the Company recognized the entire expense (through operating expense as general and administrative expense) of $81,771 associated with these warrants; i.e. no expense was recognized in any future reporting period for these warrants.

2011 Warrants

On May 9, 2011, Enservco entered into an agreement with a financial advisor and as part of the compensation paid pursuant to that agreement granted the advisor a warrant to purchase 100,000 shares of the Company's common stock. The warrants are exercisable at $0.77 per share for a five year term. The warrants may be exercised on a cashless basis. The warrants also provide that subject to various conditions, the holders have piggy-back registration rights with respect to the shares of common stock that may be acquired upon the exercise of the warrants.

The fair value of each warrant is estimated on the date of issuance using the Black-Scholes option pricing model. The grants issued in 2011 were valued using the following weighted average assumptions: no dividend yield, expected volatility of 102.8%, risk free interest rate of 1.84% and term of 5 years. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods through the date of issuance, equal to the contractual warrant term. The warrant term was based on the life of the warrant as stated on the warrant agreement. With a stock price of $0.63 on the date of issuance, these warrants had a fair-value of $0.46 per share. These warrants are classified as equity instruments on the balance sheet at December 31, 2012 and March 31, 2013.

As of December 31, 2011 the Company recognized the entire expense (through operating expense as general and administrative expense) of $46,353 associated with these warrants; i.e. no expense was recognized in any future reporting period for these warrants.

2012 Warrants

On October 31, 2012, Enservco granted each of the principals of its existing investor relations firm a warrant to purchase 112,500 shares of the Company's common stock (a total of 225,000 shares) for the firm's assistance in creating awareness for the Company's Private Equity Placement, in November 2012, as required by the Revolving Credit, Term Loan, and Security Agreement entered into with PNC Bank, National Association ("PNC"). The warrants are exercisable at $0.55 per share for a five year term. Each of the warrants may be exercised on a cashless basis. The warrants also provide that subject to various conditions, the holders have piggy-back registration rights with respect to the shares of common stock that may be acquired upon the exercise of the warrants.

In November 2012, Enservco entered into stock subscription agreements with each equity investor who participated in the Private Equity Placement. The Company raised approximately $2.0 million in equity, pursuant to the Facility Agreement entered into with PNC (the agreement required a minimum $1.25 million equity raise as a perquisite to the agreement's execution). In conjunction with these stock subscription agreements, the Company granted a one-half share warrant for every full share of common stock acquired by the equity investors. As such, the Company granted warrants to purchase 2,849,714 shares of the Company's common stock, exercisable at $0.55 per share for a five year term. Each of the warrants may be exercised on a cashless basis and have a price-reset provision if, in certain circumstances, Enservco issues shares of its common stock (or common stock equivalents) at less and $0.35 per share on or before October 31, 2014. The warrants also provide that subject to various conditions, the holders have piggy-back registration rights with respect to the shares of common stock that may be acquired upon the exercise of the warrants and an obligation to file a registration statement for the shares underlying those warrants before a specific date, and to obtain effectiveness thereof by September 25, 2013 (the “Registration Right”). The registration statement has been filed within the time limits required, although it has not yet been declared effective. If the Company fails to obtain timely effectiveness, it may be subject to a penalty in cash or shares (valued at the current ten-day VWAP ending two days before payment is made) equal to 1.0% per month (prorated for any partial months), for the period(s) of time that the Company fails to obtain effectiveness or remain effective, of the original purchase price of the Registrable Securities included or intended to be included within the Registration Statement, provided that the aggregate amount of Liquidated Damages shall not exceed 8% of the original purchase price of such Registrable Securities.

Also in November 2012, Enservco granted warrants to purchase 449,456 shares of the Company’s common stock to numerous unaffiliated consultants, for services rendered for the finding and execution of multiple stock subscriptions agreements with several equity investors. These warrants have the same terms and conditions as the warrants issued in conjunction with the stock subscription agreements, as granted on the same date thereof (i.e. exercisable at $0.55 per share for a five year term, piggy-back registration rights, no price-reset provisions, etc).

On November 2, 2012, pursuant to conditions within the PNC Revolving Credit, Term Loan, and Security Agreement, Mr. Herman (the Company's Chairman and CEO) was required to convert his $1,477,760 outstanding subordinated debt into 4,222,000 shares of the Company's common stock. Similar to the provisions within the stock subscription agreements executed on the same date thereof, Mr. Herman was granted warrants to purchase 2,111,000 shares of the Company's common stock. These warrants have the same terms and conditions as the warrants issued in conjunction with the stock subscription agreements, as granted on the same date thereof (i.e. exercisable at $0.55 per share for a five year term, piggy-back registration rights, price-reset provisions, etc).

In each case where the warrants are entitled to a cashless exercise, the Company has interpreted the term "fair market value" of the underlying shares to equal the ten day VWAP for the Company's common stock, ending on the day before notice of exercise is received by the Company.

The fair value of each warrant is estimated on the date of issuance using the Black-Scholes option pricing model, and is shown as additional issuance costs of the private placement. The grants issued in 2012 were valued using the following weighted average assumptions: no dividend yield, expected volatility of 123.9%, risk free interest rate of 0.73% and term of 5 years. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods through the date of issuance, equal to the contractual warrant term. The warrant term was based on the life of the warrant as stated on the warrant agreement. With a stock price of $0.35 on the date of issuance, these warrants had a fair-value of $0.28 per share. These warrants are classified as equity instruments on the balance sheet at December 31, 2012 and March 31, 2013.

In addition to the warrants discussed above, subsequent to the close of the PNC Credit Agreement and the Private Equity Placement, on November 29, 2012, Enservco entered into an investor relations services agreement with an unaffiliated consultant. Pursuant to this services agreement, the Company issued the consultant 125,000 shares of common stock, at $0.40 per share, in lieu of cash fees. The Company also granted the consultant a warrant to purchase 200,000 shares of the Company's common stock. Due to the terms of the warrants and the underlying service agreement with the service provider, these warrants vest based on performance criteria within the agreement through May 31, 2013, and are exercisable on May 31, 2013 at $0.40 per share, with a five year term. Each of the warrants may be exercised on a cashless basis. The warrants also provide that subject to various conditions, the holders have piggy-back registration rights with respect to the shares of common stock that may be acquired upon the exercise of the warrants.

The warrants issued on November 29, 2012 were valued using the following weighted average assumptions: no dividend yield, expected volatility of 125.7%, risk free interest rate of 0.63%, and term of 5 years. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods through the date of issuance, equal to the contractual warrant term. The warrant term was based on the life of the warrant as stated on the warrant agreement. With a stock price of $0.36 on the date of issuance, these warrants had a fair-value of $0.30 per share. Per analysis performed by the Company, the warrants issued on November 29, 2012 are classified as equity instruments on the balance sheet at December 31, 2012 and March 31, 2013. As of March 31, 2013 the Company recognized an expense (through operating expense as general and administrative expense) of $30,023 associated with these warrants.

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Note 11 – Stockholder’s Equity

2010 Option Plan

On July 27, 2010 the Company’s Board of Directors adopted the Aspen Exploration 2010 Stock Incentive Plan (the “2010 Plan”). The aggregate number of shares of our common stock that may be issued through December 31, 2011 under all equity-based awards made under the 2010 Plan is 3,500,000 shares. The number of shares subject to the 2010 Plan may be reset each year, commencing January 1, 2012, based on the number of shares of stock then outstanding. As such, at January 1, 2013 the number of shares of common stock available under the 2010 Plan was reset to 4,773,794 shares; calculated as 15% of the issued and outstanding shares of common stock (31,825,294 shares) on that date. The exercise price of the options granted under the 2010 Plan was determined based on the terms and conditions within the 2010 Plan.

Through March 31, 2013 the Company has granted options to acquire a total of 2,741,000 outstanding shares of common stock pursuant to the 2010 Plan, broken out in specific grant dates as noted below:

1. Pursuant to the 2010 Plan, options to acquire an aggregate of 975,000 shares of common stock were granted on the date of the Merger Transaction. The exercise price of these options was based on the closing price of the Company’s common stock on the second business day following the Company reporting the closing of the Merger Transaction. Of these shares, 225,000 shares vested immediately upon grant and the remaining shares vest ratably over the term of the options.

2. Subsequent to the initial granting of the 975,000 shares pursuant to the 2010 Plan, and prior to the year ending December 31, 2012, options to acquire an additional 1,875,000 shares of common stock were granted under the 2010 Plan. The exercise price of these options was based either on the closing sale price of the Company’s common stock on the date of grant or the ten day average closing price of the Company’s common stock prior to the grant date. These 1,875,000 shares vest over two to three year periods with 633,333 shares having vested on the date of grant. As of December 31, 2012, 1,125,000 of these shares were cancelled or expired for failure to meet established performance goals or as a result of termination of employment.

3. During the year ended December 31, 2012 an additional 1,270,000 shares of common stock were granted under the 2010 Plan. The exercise price of these options was based on the closing sale price of the Company’s common stock on the business day following the date of grant. These 1,270,000 shares vest over two to three year periods with 150,000 shares having vested on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The options issued during the year ended December 31, 2012 were valued using the following weighted average assumptions: no dividend yield, average expected volatility of 118.83%, risk free interest rate of 0.37% and expected term of 3.4 years. As of December 31, 2012, 410,000 of these shares were cancelled or expired for failure to meet established performance goals or as a result of termination

of employment.

4. On January 23, 2013 an additional 158,000 shares of common stock were granted under the 2010 Plan. The exercise price of these options was based on the ten day average closing price of the Company's common stock prior to the grant date. These 158,000 shares vest over a three year period with -0- shares having vested on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The options issued on January 23, 2013 were valued using the following weighted average assumptions: no dividend yield, average expected volatility of 134.62%, risk free interest rate of 0.37% and expected term of 3.5 years. As of March 31, 2013, 2,000 of these shares were cancelled or expired for failure to meet established performance goals or as a result of termination of employment.

For the three months ended March 31, 2013 the Company recognized expense (through operating expense as general and administrative expense) of $38,696 on options within the 2010 Plan. During the three months ended March 31, 2013 the Company had unrecognized expense of $276,355 associated with options within the 2010 Plan, which will be recognized over the remaining weighted-average period of 2.4 years. The options within the 2010 Plan were classified as equity instruments on the balance sheet at March 31, 2013.

2008 Option Plan

As of March 31, 2013, 350,000 options were outstanding under the 2008 Plan.

Through July 27, 2010 Aspen had one equity compensation plan, the “2008 Equity Plan.” An aggregate of 1,000,000 common shares were reserved for issuance under the 2008 Equity Plan and in February 2008 the Board of Directors granted directors and employees options to acquire 775,000 shares which vested based on meeting certain performance goals, exercisable at $2.14 per share through February 27, 2013. Of these, all but 140,431 have expired as of December 31, 2012 for failure to meet established performance goals or as a result of termination of employment. As of December 31, 2012, the Company did not have any unrecognized expense associated with these options. During the three months ended March 31, 2013, the remaining 140,431 shares were terminated due to expiration on February 27, 2013.

Pursuant to the 2008 Equity Plan, on February 15, 2010, Aspen’s Board of Directors granted options to certain Aspen employees and consultants. The options were granted to persons who remained with Aspen and had provided (and were then expected to continue to provide) valuable services to Aspen, and to help align interests of the recipients with those of Aspen and its stockholders. In total, Aspen granted options to acquire 350,000 shares of its common stock which were exercisable at $0.4125 per share (equal to 125% of the closing price on the business day after the day the Company filed its Form 10-Q for the quarter ended December 31, 2009).

Each of the options granted on February 15, 2010 expires on February 15, 2015. These options became vested as a result of the Merger Transaction on July 27, 2010. On July 27, 2010, the Company terminated the 2008 Equity Plan, although such termination did not terminate or otherwise affect the contractual rights of persons who hold options to acquire common stock under the 2008 Equity Plan.

The following information summarizes information with respect to options granted under all equity plans:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2011	3,305,431	$ 0.70	2.51
Granted	400,000	1.07	
Exercised	-	-	
Forfeited or Expired	(1,030,000)	0.50	

Outstanding at March 31, 2012	2,675,431	$	0.83	1.99
Granted	870,000		0.46	
Exercised	-		-	
Forfeited or Expired	(470,000)		1.03	
Outstanding at December 31, 2012	3,075,431	$	0.71	2.33
Granted	158,000		0.70	
Exercised	-		-	
Forfeited or Expired	(142,431)		2.12	
Outstanding at March 31, 2013	3,091,000	$	0.64	2.35
Exercisable at December 31, 2011	2,182,097	$	0.71	2.25
Exercisable at March 31, 2012	1,515,431	$	0.64	2.00
Exercisable at December 31, 2012	2,265,431	$	0.70	1.25
Exercisable at March 31, 2013	2,125,000	$	0.71	1.00

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A summary of the status of nonvested shares underlying the options are presented below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2011	1,123,334	$ 0.48
Granted	400,000	0.75
Vested	-	-
Forfeited	(363,334)	0.38
Nonvested at March 31, 2012	1,160,000	$ 0.65
Granted	870,000	0.33
Vested	(770,000)	0.54
Forfeited	(450,000)	0.75
Nonvested at December 31, 2012	810,000	$ 0.37
Granted	158,000	0.56
Vested	-	-
Forfeited	(2,000)	0.56
Nonvested at March 31, 2013	966,000	$ 0.40

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information regarding the results of operations for the three months ended March 31, 2013 and 2012, and our financial condition, liquidity and capital resources as of March 31, 2013, and December 31, 2012. The financial statements and the notes thereto contain detailed information that should be referred to in conjunction with this discussion.

Forward-Looking Statements

The information discussed in this Quarterly Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). All statements, other than statements of historical facts, included herein concerning, among other things, planned capital expenditures, increases in oil and gas production, the number of anticipated wells to be drilled after the date hereof, future cash flows and borrowings, pursuit of potential acquisition opportunities, our financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. These forward-looking statements are identified by their use of terms and phrases such as "may," "expect," "estimate," "project," "plan," "believe," "intend," "achievable," "anticipate," "will," "continue," "potential," "should," "could," terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, among others:

- capital requirements and uncertainty of obtaining additional funding on terms acceptable to us;
- price volatility of oil and natural gas prices, and the effect that lower prices may have on our customer's demand for our services, the result of which may adversely impact our revenues and stockholders' equity;
- a decline in oil or natural gas production, and the impact of general economic conditions on the demand for oil and natural gas and the availability of capital which may impact our ability to perform services for our customers;
- the broad geographical diversity of our operations which, while expected to diversify the risks related to a slow-down in one area of operations, also adds significantly to our costs of doing business;
- constraints on us as a result of our substantial indebtedness, including restrictions imposed on us under the terms of our credit facility agreement and our ability to generate sufficient cash flows to repay our debt obligations;
- our history of losses and working capital deficits which, at times, were significant;
- adverse weather and environmental conditions;
- reliance on a limited number of customers;
- our ability to retain key members of our senior management and key technical employees;
- impact of environmental, health and safety, and other governmental regulations, and of current or pending legislation with which we and our customers must comply;
- developments in the global economy;
- changes in tax laws;
- the effects of competition;

- the effect of seasonal factors;
- further sales or issuances of our common stock and the price and volume volatility of our common stock; and
- our common stock's limited trading history.

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Finally, our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in our filings with the SEC and in Part II, Item 1A of this Quarterly Report. For additional information regarding risks and uncertainties, please read our filings with the SEC under the Exchange Act and the Securities Act, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this Quarterly Report. Other than as required under securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

Company Overview and Overview of the Information Presented

The Company was incorporated as Aspen Exploration Corporation under the laws of the State of Delaware on February 28, 1980 for the primary purpose of acquiring, exploring and developing oil and natural gas and other mineral properties. On June 30, 2009, Aspen disposed of all of its remaining oil and natural gas producing assets and as a result was no longer engaged in active business operations. On June 24, 2010, Aspen entered into an Agreement and Plan of Merger and Reorganization with Dillco Fluid Service, Inc. (“Dillco”) which set forth the terms by which Dillco became a wholly owned subsidiary of Aspen on July 27, 2010 (the “Merger Transaction”).

On December 30, 2010, Aspen changed its name to “Enservco Corporation.” As such, throughout this report the terms the “Company” and/or “Enservco” are intended to refer to the Company on a post Merger Transaction basis and as a whole, with respect to both historical and forward looking contexts. As a result of the Merger Transaction, the Company’s fiscal year was modified to be the calendar year.

As discussed in more detail below, the Company completed a refinancing of its debt and raised some additional equity capital in a private placement in November 2012. Going forward, and subject to the availability of adequate equity and/or debt financing, the Company expects to continue to pursue its growth strategies of exploring additional acquisitions, potentially expanding the geographic areas in which it operates, and diversifying the products and services it provides to customers, as well as making further investments in its assets and equipment. There can be no assurance that the Company will be able to raise any additional outside capital or have access to additional outside funding on reasonable terms, if at all.

Discussion of Operations for the Three Months ended March 31, 2013 and 2012

The following table shows the results of operations for the periods noted. Please see information following the table for management's discussion of significant changes.

	Three Months Ended March 31,			
	2013	% of Revenue	2012	% of Revenue
Revenues	$18,567,166	100 %	$9,527,955	100 %
Cost of Revenue	10,401,143	56 %	6,579,429	69 %
Gross Profit	8,166,023	44 %	2,948,526	31 %
Operating Expenses				
General and administrative expenses	907,073	5 %	903,360	9 %
Depreciation and amortization	563,836	3 %	1,323,797	14 %
Total operating expenses	1,470,909	8 %	2,227,157	23 %
Income from Operations	6,695,114	36 %	721,369	8 %
Other Income (Expense)	6,518	0 %	(138,765)	(2)%
Income From Continuing Operations Before Tax Expense	6,701,632	36 %	582,604	6 %
Income Tax Expense	(2,695,061)	(14)%	(203,847)	(2)%
Income From Continuing Operations	4,006,571	22 %	378,757	4 %
Discontinued Operations				
Loss from discontinued operations	(118,918)	(1)%	(165,361)	(2)%
Income tax benefit	46,378	0 %	64,491	1 %
Loss on discontinued operations, net of tax	(72,540)	(1)%	(100,870)	(1)%
Net Income	$3,934,031	21 %	$277,887	3 %
Earnings per Common Share – Basic				
Income from continuing operations	$0.12		$0.01	
Discontinued operations	-		-	
Net Income	$0.12		$0.01	
Earnings per Common Share – Diluted				
Income from continuing operations	$0.11		$0.01	
Discontinued operations	-		-	
Net Income	$0.11		$0.01	
Basic weighted average number of common shares outstanding	31,825,294		21,778,866	

Add: Dilutive shares assuming exercise of options and warrants	3,172,940	1,240,747
Diluted weighted average number of common shares outstanding	34,998,234	23,019,613

Although Enservco does not have segmented business operations, which would require segment reporting within the notes of its financial statements per accounting standards, we believe that revenue by service offering may be useful to readers of our financials. The following tables set forth revenue from continuing operations for the Company's three service offerings during the three months ending March 31, 2013 and 2012:

	Three Months Ended March 31,	
	2013	2012
BY SERVICE OFFERING:		
Fluid Management [1]	$ 1,928,595	$ 2,111,226
Well Enhancement Services [2]	16,529,380	7,333,854
Well Site Construction and Roustabout Services[6]	109,191	82,875
Total Revenues	$ 18,567,166	$ 9,527,955

Enservco has also determined that an understanding of the diversity of its operations by geography is important to an understanding of its business operations. Enservco only does business in the United States, in what it believes are three geographically diverse regions. The following table sets forth revenue from continuing operations for the Company's three geographic regions during the three months ending March 31, 2013 and 2012:

	Three Months Ended March 31,	
	2013	2012
BY GEOGRAPHY:		
Eastern USA Region [3]	$ 4,324,196	$ 1,298,110
Rocky Mountain Region [4]	10,510,435	5,517,073
Central USA Region [5]	3,732,535	2,712,772
Total Revenues	$ 18,567,166	$ 9,527,955

Notes to tables:

(1) Water hauling/disposal and frac tank rental.

(2) Services such as frac heating, acidizing, hot oil services, and pressure testing.

(3) Consists of operations and services performed in the southern region of the Marcellus Shale formation (southwestern Pennsylvania and northern West Virginia) and the Utica Shale formation (eastern Ohio). Heat Waves is the only Company subsidiary operating in this region.

(4) Consists of western Colorado, southeastern Wyoming, western North Dakota, and eastern Montana. Heat Waves is the only Company subsidiary operating in this region.

(5)

Consists of southwestern Kansas, northwestern Oklahoma, Texas panhandle, and northern New Mexico. Both Dillco and Heat Waves engage in business operations in this region.

(6) Amounts herein represent our Dillco construction and roustabout services. During 2012, the Heat Waves' construction and roustabout service line was discontinued. See Note 3 to our consolidated financial statements accompanying the Form 10K within this report for more details.

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Revenues:

The approximately $9.0 million or 95% increase in our revenues from continuing operations for the three months ended March 31, 2013, as compared to the same period in 2012, is primarily due to (i) a normal winter season during the 2012-2013 heating season (as compared to the higher-than-average temperatures and moderate weather during the prior year's winter), and (ii) due to increased heating capacity through the purchase and fabrication of additional trucks and equipment to service our well enhancement services. These factors are discussed in detail throughout this section; this section focuses on key increases in our revenues from continuing operations from our service line offerings and geographical regions, with additional discussions for any offsetting decreases.

In general, on a service offering basis, the increase in revenues during the first quarter of 2013 included significant increases within our well enhancement services, and a slight reduction in revenues during the same period in our fluid management services. Revenues from well site construction services remained approximately the same during the three month period.

In general, on a geographical basis, revenues from the Rocky Mountain region increased significantly during the first quarter of 2013, as did revenues from operations in the eastern USA region. Revenues from operations in the Central USA region showed a slight increase during the three month period.

Specific factors that increased revenues during the three months ended March 31, 2013, as compared to 2012:

(1) During 2012 and the beginning of 2013, the Company expanded its heating capacity by investing in additional trucks and equipment to meet the growing demand for our frac heating and hot oiling services. As part of this expansion of trucks and equipment, the Company purchased and fabricated two new hot oil units and five double-burner frac heating units which were deployed into our Rocky Mountain region;

(2) Though the Company's Well Enhancement services of frac heating and hot oiling were affected by higher-than-average temperatures and moderate weather during the first quarter of 2012, weather patterns returned to normal during the first quarter of 2013, which is in the middle of the 2012-2013 heating season, thus increasing the demand for our frac heating and hot oiling services;

(3) Revenues in the Eastern USA region (the southern Marcellus Shale formation covering southwestern Pennsylvania and northern West Virginia) increased by approximately $3.0 million during the first quarter of 2013, as compared to the same period in 2012, with the majority of this increase associated with Well Enhancement services (more specifically, frac heating and hot oiling). This increase is due weather patterns in this area returning to normal during the winter of 2012-2013, and is also due to our expansion into the Utica shale (located in northern West

Virginia) where exploration and production in this oil-field play is beginning to see increased activity and demand for our services; and

(4) Due to our expansion and organic growth within our Rocky Mountain and Central USA regions we were also able to execute additional Fluid Management agreements with key customers during 2012, continuing these services through the beginning of 2013. These new agreements resulted in the Company investing in additional water transports. In total, the Company purchased and fabricated two new water transports, and also leased an additional seven water transports, which were deployed into our Rocky Mountain and Central USA regions during 2012. See below for a discussion around the decreases in Fluid Management services within our Dillco Fluid Service, Inc operations which offset the increase in revenues from our Rocky Mountain and other Central USA operations.

Specific factors that decreased revenues during the three months ended March 31, 2013, as compared to 2012:

(1) In spite of the expansion and organic growth within our Rocky Mountain and Central USA regions as explained above, Fluid Management services within our Dillco Fluid Service, Inc. operations (part of our Central USA region) decreased by approximately $500,000 during the first quarter of 2013, as compared to the same period in 2012. This decrease was due to losing a member of our Dillco Fluid Service, Inc. operations management team near the end of the first quarter of 2012; this member took his small number of fluid service trucks and equipment and certain small, independent-customers to explore his own business opportunities.

Historical Seasonality of Revenues. Because of the seasonality of our frac heating and hot oiling business, the second and third quarters are historically our lowest revenue generating periods of our fiscal year. In addition, the revenue mix of our service offerings also changes as our Well Enhancement services (which includes frac heating and hot oiling) decrease as a percentage of total revenues and Fluid Management services and other services increase. The first and fourth quarters of our fiscal year, covering the months during what is known as our "heating season", have historically made up approximately 60% or more of our total fiscal year revenues, with the remaining 40% historically split evenly between the second and third quarters. Thus, the revenues recognized in our quarterly financials in any given period are not indicative of the annual or quarterly revenues through the remainder of that fiscal year.

As an indication of this quarter-to-quarter seasonality, the Company earned approximately $5.5 million and $5.2 million of its 2012 revenues during the second and third quarters of 2012, respectively, while earning approximately $9.5 million and $11.3 million during the first and fourth quarters of 2012, respectively. The 2011 comparison was similar; $4.2 million and $4.3 million in revenues during the second and third quarters of 2011, respectively, as compared to approximately $9.1 million and $6.3 million during the first and fourth quarters of 2011, respectively. While the Company is pursuing various strategies to lessen these quarterly fluctuations by increasing non-seasonal business opportunities, there can be no assurance that we will be successful in doing so.

Costs of Revenues and Gross Profit:

Although revenues from continuing operations increased during the three months ended March 31, 2013, as compared to the same period in 2012, cost of revenues from continuing operations as a percentage of revenues decreased by approximately fifteen percentage points. This resulted in an increased gross profit margin of approximately $5.2 million or 177% for the first quarter in 2013, when compared to the same period in 2012.

The decrease in cost of revenues and increased profitability rate for the period is primarily due to the following factors:

(1) Historically, our revenue mix has consisted of approximately 55% of our consolidated revenues generated through our Well Enhancement services and approximately 40% from our Fluid Management services; the remaining 5% of consolidated revenues has historically been generated from Well Site Construction and other services. During the first quarter of 2013, our revenue mix consisted of approximately 90% of consolidated revenues from Well Enhancement services. This significant change to our revenue mix is due to new frac heating and hot oiling customers in our Rocky Mountain, Eastern USA, and Central USA regions. To address this increase in demand, during the first quarter of 2013 we allocated all available resources (resulting in parking of water transports and redeploying water transport operators) to meet the demand of our Well Enhancement services; specifically our frac heating and hot oiling service. As we have historically experienced higher gross profit margins for Well Enhancement services, this change in revenue mix through focusing on our core heating services significantly increased our gross profit margins and our overall gross profit during the first quarter of 2013; and

(2) In prior periods the Company has benefited from a reduction in cost of revenues through the implementation and maintenance of several cost-reduction programs and policies. Due to the significant increase in revenues from continuing operations during the first quarter of 2013, the Company was able to benefit from these cost-reduction programs and policies and our gross profit margins from each incremental dollar of revenue showed a significant increase in profitability.

General and Administrative Expenses:

For the three months ended March 31, 2013, general and administrative expenses as a percentage of revenues decreased by four percentage points, as compared to the same period 2012, due to the substantial increase in revenues. However, the dollar amount spent on our general and administrative expenses remained relatively consistent during the period as there have not been any significant changes in general and administrative expenses, period-over-period.

Going forward, we anticipate that our general and administrative expenses will continue to be consistent, or may in certain periods have a slight increase, as we maintain efforts to appropriately invest in the infrastructure and overhead needed to support operations, as our operations continue to grow. We expect to be able to maintain our general and administrative expenses as a reasonable and consistent percentage of revenues.

Depreciation and Amortization:

Our depreciation and amortization expenses decreased as a percentage of revenues for the three months ended March 31, 2013, as compared to the same period in 2012, by approximately eleven percentage points, or a decrease in depreciation and amortization expense of approximately $760,000 or 57%. During the second quarter of 2012, the Company reassessed the estimated useful lives of its trucks and equipment (including its well servicing units and equipment, fluid services equipment, construction equipment, and other vehicles) as well as the estimated useful lives of its disposal wells. Through this assessment, the Company increased the useful lives of its trucks and equipment and of its disposal wells. This change in accounting estimate decreased depreciation for the three months ended March 31, 2013 by approximately $860,000 (pre-tax difference), as compared to the same period in 2012. This decrease in depreciation due to the change in accounting estimate noted above was offset by an increase in depreciation by approximately $100,000 due to property and equipment purchases during fiscal year 2011 of approximately $5.6 million and another $4.2 million in purchases during 2012 (purchase amounts include leases of approximately $282,000 and $438,000, respectively).

Results of Operations:

For the three months ended March 31, 2013, the Company recognized income from operations of approximately $6.7 million. For the same period in 2012, the Company recognized income from operations of approximately $720,000. As discussed within the *Cost of Revenues and Gross Profit*, *General and Administrative Expenses,* and *Depreciation and Amortization* sections above, the approximate $6.0 million positive swing in our results from operations during the first quarter of 2013, as compared to 2012, was primarily a result of an approximate $9.0 million or 95% increase in revenues, with the cost of revenues from continuing operations as a percentage of revenues decreasing by approximately 15% (or an increased gross profit margin of approximately $5.2 million or 177%) period-over-year, and an approximate $760,000 or 57% decrease in depreciation expense.

Management believes that this improvement in our results of operations reflects the beneficial effect of our expanded and increased operations (as discussed throughout this report), a focus on obtaining profitability, and the benefit of a normal winter and increased heating capacity in the first quarter of the year. We believe that as long as we are able to control our costs and increase our revenues as a result of our expanding geographical regions and service areas, our financial performance will continue to improve over the long run, although on a quarter-to-quarter basis, there may still be periods of loss due to the seasonality of our operations, as discussed several times herein.

Income Taxes:

For the three months ended March 31, 2013, the Company recognized income from continuing operations before taxes of approximately $6.7 million. The Company recognized a tax expense on this income from continuing operations of approximately $2.7 million. This resulted in an effective tax rate on income from continuing operations of approximately 40%. This high effective tax rate, as compared to a generally expected federal corporate tax rate of 34%, is primarily due to permanent book income vs. taxable income differences and state and local income tax.

Adjusted EBITDA*

Management believes that, for the reasons set forth below, adjusted EBITDA (even though a non-GAAP measure) is a valuable measurement of the Company's liquidity and performance and is consistent with the measurements offered by other companies in Enservco's industry. The following table presents a reconciliation of our net income to our Adjusted EBITDA for each of the periods indicated:

	Three Months Ended March 31, 2013	2012
EBITDA* From Continuing Operations:		
Income From Continuing Operations	$ 4,006,571	$ 378,757
Add (Deduct):		
Interest expense	314,052	208,991
Income tax expense	2,695,061	203,847
Depreciation and amortization	563,836	1,323,797
EBITDA* From Continuing Operations	7,579,520	2,115,392
Add (Deduct):		
Stock-based compensation	38,696	44,636
Warrants issued	30,023	-
Gain on disposal of equipment	(306,457)	-
Gain on sale of investments	-	(11,762)
Other income	(14,113)	(58,464)
Adjusted EBITDA* From Continuing Operations	$ 7,327,669	$ 2,089,802
EBITDA* From Discontinued Operations:		
Loss From Discontinued Operations	$ (72,540)	$ (100,870)
Add (Deduct):		
Interest expense	963	750
Income tax benefit	(46,378)	(64,491)
Depreciation and amortization	-	77,395
EBITDA* and Adjusted EBITDA* From Discontinued Operations	$ (117,955)	$ (87,216)

*Note: See below for discussion of the use of non-GAAP financial measurements.

Use of Non-GAAP Financial Measures: Non-GAAP results are presented only as a supplement to the financial statements and for use within management's discussion and analysis based on U.S. generally accepted accounting principles (GAAP). The non-GAAP financial information is provided to enhance the reader's understanding of the Company's financial performance, but no non-GAAP measure should be considered in isolation or as a substitute for financial measures calculated in accordance with GAAP. Reconciliations of the most directly comparable GAAP measures to non-GAAP measures are provided herein.

EBITDA is defined as net income plus or minus net interest plus taxes, depreciation and amortization. Adjusted EBITDA excludes from EBITDA stock-based compensation and, when appropriate, other items that management does not utilize in assessing the Company's operating performance (see list of these items to follow below). None of these non-GAAP financial measures are recognized terms under GAAP and do not purport to be an alternative to net income as an indicator of operating performance or any other GAAP measure. Management uses these non-GAAP measures in its operational and financial decision-making, believing that it is useful to eliminate certain items in order to focus on what it deems to be a more reliable indicator of ongoing operating performance and the Company's ability to generate cash flow from operations. Management also believes that investors may find non-GAAP financial measures useful for the same reasons, although investors are cautioned that non-GAAP financial measures are not a substitute for GAAP disclosures.

All of the items included in the reconciliation from Net Income to EBITDA and from EBITDA to Adjusted EBITDA are either (i) non-cash items (e.g., depreciation, amortization of purchased intangibles, stock-based compensation, etc.) or (ii) items that management does not consider to be useful in assessing the Company’s operating performance (e.g., income taxes, gain on sale of investments, loss on disposal of assets, etc.). In the case of the non-cash items, management believes that investors can better assess the Company’s operating performance if the measures are presented without such items because, unlike cash expenses, these adjustments do not affect the Company’s ability to generate free cash flow or invest in its business.

Because not all companies use identical calculations, the Company’s presentation of non-GAAP financial measures may not be comparable to other similarly titled measures of other companies. However, these measures can still be useful in evaluating the Company’s performance against its peer companies because management believes the measures provide users with valuable insight into key components of GAAP financial disclosures.

Changes in Adjusted EBITDA*

For the three months ended March 31, 2013, Adjusted EBITDA From Continuing Operations increased by approximately $5.2 million, as compared to the same period in 2012.

The increase of Adjusted EBITDA From Continuing Operations during the first quarter of 2013, as compared to 2012, was primarily due to an increase in revenues from our well enhancement services within our Rocky Mountain and Central USA regions, due to new frac heating and hot oiling customers in those regions.

Liquidity and Capital Resources

The following table summarizes our statements of cash flows for the three months ended March 31, 2013 and 2012 and (combined with working capital from the above table and discussion below) are important for understanding our liquidity:

	For the Three Months Ended March 31,	
	2013 (Unaudited)	2012 (Unaudited)
Net cash provided by operating activities	$ 654,580	$ 583,291

Net cash provided (used) in investing activities	1,210,580	(1,311,450)
Net cash (used) provided by financing activities	(1,595,516)	1,230,547
Net Decrease in Cash and Cash Equivalents	269,644	502,388
Cash and Cash Equivalents, Beginning of Period	533,627	417,005
Cash and Cash Equivalents, End of Period	$ 803,271	$ 919,393

Note: As discussed within Note 1 – *Basis of Presentation* within the Notes to the Condensed Consolidated Financial Statements, the Company has elected to not separately disclose cash flows pertaining to discontinued operations within the accompanying statements of cash flows for the three months ending March 31, 2013 and 2012.

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The following table sets forth a summary of certain aspects of our balance sheet at March 31, 2013 and December 31, 2012:

	March 31, 2013 (Unaudited)	December 31, 2012
Current Assets	$15,919,455	$9,553,558
Total Assets	30,853,345	25,857,026
Current Liabilities	8,507,279	7,997,228
Total Liabilities	20,024,012	19,040,678
Working Capital (Current Assets net of Current Liabilities)	7,412,176	1,556,330
Stockholders' equity	10,829,333	6,816,348

Note: As discussed within Note 1 – *Basis of Presentation* within the Notes to the Consolidated Financial Statements, the Company has classified fixed assets associated with discontinued operations as *Fixed assets held for sale* in our consolidated balance sheet as of March 31, 2013 and December 31, 2012. The Company elected to present and disclose all other major classifications of assets and liabilities associated with these discontinued operations, other than the Fixed assets held for sale, within the notes to the financial statements; see Note 3 within the Notes to the Condensed Consolidated Financial Statements for further details.

In current and prior periods, we have relied on cash generated from operations and borrowings under our credit facility to satisfy our liquidity needs. Our ability to fund operating cash flow shortfalls, fund capital expenditures, and make acquisitions will depend upon our future operating performance, and more broadly, on the availability of equity and debt financing, of which there can be no assurance and which will be affected by prevailing economic conditions in our industry and financial, business and other factors, some of which are beyond our control. At March 31, 2013, we had approximately $3.5 million available under our asset based, revolving credit facility.

On November 2, 2012, the Company and PNC Bank, National Association ("PNC") entered into a Credit Agreement and other documents by which the Company and its subsidiaries refinanced substantially all of its existing indebtedness with Great Western Bank. This refinancing has positively bolstered our working capital position, as well as provided for an increased revolving credit facility. Based on our existing operating performance, coupled with the recent refinancing, we believe we will have adequate funds to meet operational and capital expenditure needs for the remainder of fiscal year 2013 and beyond. However, if our estimates about our future operating performance turn out to be inaccurate, or if we are unable to raise additional capital in the absence of positive future operating performance, the Company will adjust its capital expenditures accordingly.

The credit agreements evidencing our debt facilities contain standard covenants regarding leverage, minimum net worth, debt service coverage, capital expenditures, additional lease arrangements, and additional debt limitations and loan to value ratios. At March 31, 2013, the Company did not meet one of the covenants imposed by the loan agreements with PNC, associated with limits imposed on the aggregate amount of lease expense allowed on an annual basis, which resulted in an event of default under the loan documents. PNC has waived the effect of this event of default and has agreed to modify the debt covenants of the loan agreements for future reporting periods for the covenant which was in default at March 31, 2013. As a result of the waiver, no default was declared. The Company believes that it is in line to meet the modified debt covenant and all other future covenant requirements.

As of March 31, 2013 we had working capital of approximately $7.4 million, an increase in working capital of approximately $5.9 million as compared to our 2012 fiscal year end. There were various components contributing to the increase in the working capital during the first quarter of 2013:

Factors that increased our working capital –

(1) An increase in accounts receivable balances of approximately $5.6 million due to an approximate $7.1 million increase in first quarter 2013 revenues as compared to the fourth quarter of 2012;

(2) A decrease in the line of credit balance of approximately $920,000 due to our ability to pay down the line of credit balance through cash flows from operations during the first quarter of 2013; again, due to the approximate $7.1 million increase in first quarter 2013 revenues as compared to the fourth quarter of 2012; and

(3) An increase in prepaids and other current assets of approximately $490,000.

Factors that had a negative effect on our working capital –

(1) An increase in income taxes payable of $1.5 million due to the increased profitability experienced during the first quarter 2013.

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Investing and Financing Activities

Our capital expenditures for the first quarter of 2013 were approximately $592,000, as compared to approximately $1.4 million during the first quarter of 2012. During the first quarter of 2013, we sold or disposed of trucks and equipment resulting in proceeds of approximately $1.6 million, and also sold two disposal wells and a property within our Dillco Fluid Service, Inc operations center, located in southwest Kansas, for combined cash proceeds of approximately $192,000. These items, combined, explain the significant increase of approximately $2.5 million in the cash provided by investing activities during the first quarter of 2013, as compared to the same period in 2012.

During the first quarter of 2012, the Company entered into several equipment loans with its primary lender and received proceeds from the issuance of long-term debt of approximately $1.4 million. The Company also had net payments on its line of credit of approximately $920,000 during the first quarter of 2013, as compared to net borrowings under its line of credit facility of approximately $725,000 during the first quarter of 2012 . These items, combined, explain the significant increase of approximately $2.8 million in the cash used in financing activities during the first quarter of 2013, as compared to the same period in 2012.

As of December 31, 2012 we have executed commitments for approximately $900,000 for additional heating equipment. A majority of these assets were purchased, or financed, and delivered as of the date of this filing. The Company has no other commitments as of March 31, 2013.

Capital Commitments and Obligations

The Company's capital commitments and obligations as of March 31, 2013 consisted of the PNC Term Loan, the PNC Revolving Line of Credit, a Great Western Bank Real Estate Loan entered into to fund the new operation center in North Dakota, as well as other bank debt and certain capital and operating leases. General terms and conditions for, and amounts due under, these commitments and obligations are summarized in the notes to the financial statements.

Going forward, and subject to the availability of adequate financing, the Company hopes to expand its business operations by acquiring additional equipment, increasing the volume of services we currently offer, expanding the services we offer to our customers, and engaging in strategic transactions with companies that offer services that are similar or complementary to those that the Company offers.

Management has taken various preliminary steps to explore geographical and service offering expansion. To fully implement certain of these activities the Company likely will need to raise additional capital or borrow funds from its existing lender(s) or from other third parties. The Company believes that it can utilize cash flows, its existing line of credit, and remaining equipment and other loan balances to finance its current plans. However, should the Company desire to engage in certain strategic transactions or other significant expansions of its business operations it will likely have to obtain outside financing. There can be no assurance that financing will be available to the Company on reasonable terms, if at all.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make a variety of estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. and (ii) the reported amounts of revenues and expenses during the reporting periods covered by the financial statements.

Our management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increase, these judgments become even more subjective and complex. Although we believe that our estimates and assumptions are reasonable, actual results may differ significantly from these estimates. Changes in estimates and assumptions based upon actual results may have a material impact on our results of operation and/or financial condition. Our significant accounting policies are disclosed in Note 2 to the Condensed Consolidated Financial Statements included in this Form 10-Q.

While all of the significant accounting policies are important to the Company’s financial statements, the following accounting policies and the estimates derived there from have been identified as being critical.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. The Company provides a reserve for doubtful accounts based on a review of outstanding receivables, historical collection information and existing economic conditions. The provision 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 performance that is tracked by the Company on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance.

Revenue Recognition

The Company recognizes revenue when evidence of an arrangement exists, the fee is fixed determinable, services are provided, and collection is reasonably assured. Due to the seasonality of the Company’s operations, a significant portion of revenues are recognized during the colder, winter months of the year. Therefore, the Company believes that, the revenues recognized for the three month periods ended March 31, 2013 and 2012 are not indicative of quarterly revenues through the remainder of the fiscal year.

Property and Equipment

Property and equipment consists of (1) trucks, trailers and pickups; (2) trucks that are in various stages of fabrication; (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 charges repairs and maintenance against income when incurred and capitalizes renewals and betterments, which extend the remaining useful life or expand the capacity of the assets. Depreciation is recorded on a straight-line basis over estimated useful lives of 5 to 30 years.

During the year ended December 31, 2012, the Company reassessed the estimated useful lives of its trucks and equipment (including its well servicing units and equipment, fluid services equipment, construction equipment, and other vehicles) as well as the estimated useful lives of its disposal wells. Through this assessment, the Company increased the useful lives of its trucks and equipment from 5-7 years to 10 years, and increased the useful lives of its disposal wells from 7-10 years to 15 years. The Company has determined that this adjustment to its useful lives is a change in accounting estimate and has accounted for the change prospectively; i.e. the accounting change impacts interim reporting periods within fiscal year 2012 and future periods. For the three months ended March 31, 2013, the change in accounting estimate decreased depreciation for the period by approximately $860,000 (pre-tax difference), increasing Income from Operations and Net Income by this amount, or by approximately $0.03 earnings per basic and $0.02 earnings per diluted common share, respectively.

Inventory

Inventory consists primarily of diesel fuel and chemicals that are used in the servicing of oil wells and is carried at the lower of cost or market in accordance with the first in, first out method. 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.

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 looks primarily to the discounted future cash flows in its assessment of whether or not long-lived assets have been impaired.

Intangible Assets

Goodwill. Goodwill represents the excess of the cost over the fair value of net assets acquired, including identified intangible assets, recorded in connection with the acquisitions of Heat Waves. Goodwill is not amortized but is assessed for impairment at least annually.

Impairment. The Company assesses goodwill for impairment at the reporting unit level on an annual basis and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value below its carrying amount. Guidance allows a qualitative assessment of impairment to determine whether it is more-likely-than-not that goodwill is impaired. If it is determined that it is more-likely-than-not that and impairment exists, accounting guidance requires that the impairment test be performed through the application of a two-step fair value test. The Company utilizes this method and recognizes a goodwill impairment loss in the event that the fair value of the reporting unit does not exceed its carrying value. During fiscal year ended December 31, 2012, the Company performed the annual impairment test and determined that no impairment existed. For the three month periods ended March 31, 2013 and 2012, the Company did not note any events that occurred, nor did any circumstances change, that would result in an impairment of goodwill as of the last annual test performed.

Income Taxes

The Company recognizes deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities will be recognized in income in the period that includes the enactment date. Deferred income taxes are classified as a net current or non-current asset or liability based on the classification of the related asset or liability for financial reporting purposes. A deferred tax asset or liability that is not related to an asset or liability for financial reporting is classified according to the expected reversal date. The Company records a valuation allowance to reduce deferred tax assets to an amount that it believes is more likely than not expected to be realized.

The Company accounts for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company measures the tax benefits recognized in the financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, the Company is required to make many subjective assumptions and judgments regarding income tax exposures. Interpretations of and guidance surrounding income tax law and regulations change over time and may result in changes to the Company's subjective assumptions and judgments which can materially affect amounts recognized in the consolidated balance sheets and consolidated statements of income. The result of the reassessment of the Company's tax positions did not have an impact on the consolidated financial statements.

Interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expenses. No interest or penalties have been assessed as of March 31, 2013. The Company files tax returns in the United States and in the states in which it conducts its business operations. The tax years 2009 through 2012 remain open to examination in the taxing jurisdictions to which the Company is subject.

Stock-based Compensation

The Company uses the fair value method of accounting for stock-based compensation, where Stock-based compensation costs are measured at fair value, determined using the stock price on the date of grant, and charged to expense over the requisite service period.

Off Balance Sheet Arrangements

Other than the guarantees made by Enservco (as the parent Company) and by Mr. Herman on various loan agreements, the Company had no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our stockholders.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the “1934 Act”), as of March 31, 2013, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer). Based upon and as of the date of that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2013.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the 1934 Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were not any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated by the SEC under the 1934 Act) during the quarter ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. LEGAL PROCEEDINGS

There are no material pending legal or regulatory proceedings against the Company, and it is not aware of any that are known to be contemplated.

Item 1A. RISK FACTORS

See the risk factors set forth in the Company's annual report on Form 10-K for the year ended December 31, 2012. There have been no material changes to the risk factors set forth in that Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended March 31, 2013 the Company did not engage in, or effect, any unregistered sales of equity securities.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

None.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

Exhibit No.	Title
2.01	Agreement and Plan of Merger and Reorganization dated June 24, 2010. (1)
3.01	Second Amended and Restated Certificate of Incorporation. (2)
3.02	Amended and Restated Bylaws. (3)
11.1	Statement of Computation of per share earnings (contained in Note 2 to the Condensed Consolidated Financial Statem
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Michael Herman, Principal Executive Offic
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Robert J. Devers, Principal Financial Office
32	Certification Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (M

(1) Incorporated by reference from the Company's Current Report on Form 8-K dated June 24, 2010 and filed on the same date.

(2) Incorporated by reference from the Company's Current Report on Form 8-K dated December 30, 2010, and filed on January 4, 2011.

(3) Incorporated by reference from the Company's Current Report on Form 8-K dated July 27, 2010, and filed on July 28, 2010.

In accordance with the requirements of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

ENSERVCO CORPORATION

Date: May 13, 2013 /s/ Michael D. Herman
Michael D. Herman, Chairman and Chief Executive Officer (Principal Executive Officer)

Date: May 13, 2013 /s/ Robert J. Devers
Robert J. Devers, Chief Financial Officer (Principal Financial Officer)