Enservco Corp
Form 10-Q
August 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

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

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

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

Yes **X** No

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

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

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

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 August 8, 2014
Common stock, $.005 par value	36,845,147

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ENSERVCO CORPORATION

Condensed Consolidated Balance Sheets

	June 30, 2014 (Unaudited)	**December 31, 2013**
ASSETS		
Current Assets		
Cash and cash equivalents	$5,622,703	$1,868,190
Accounts receivable, net	3,993,227	11,685,866
Prepaid expenses and other current assets	1,487,523	923,758
Inventories	443,725	315,004
Deferred tax asset	338,664	336,561
Total current assets	11,885,842	15,129,379
Property and Equipment, net	22,585,667	17,425,828
Goodwill	301,087	301,087
Long-Term Portion of Interest Rate Swap	9,627	18,616
Other Assets	398,690	547,338
TOTAL ASSETS	$35,180,913	$33,422,248
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$2,460,158	$3,102,912
Income taxes payable	976,591	1,278,599
Current portion of long-term debt	2,634,978	2,562,141
Current portion of interest rate swap	8,370	11,966
Total current liabilities	6,080,097	6,955,618
Long-Term Liabilities		
Long-term debt, less current portion	9,970,222	11,200,048
Deferred income taxes, net	2,551,297	2,421,466
Total long-term liabilities	12,521,519	13,621,514

Total liabilities	18,601,616	20,577,132
Commitments and Contingencies (Note 6)		
Stockholders' Equity		
Preferred stock. $.005 par value, 10,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock. $.005 par value, 100,000,000 shares authorized, 36,831,055 and 34,926,136 shares issued, respectively; 103,600 shares of treasury stock; and 36,727,455 and 34,822,536 shares outstanding, respectively	183,638	174,113
Additional paid-in-capital	11,961,042	11,568,033
Accumulated earnings	4,433,837	1,098,900
Accumulated other comprehensive income	780	4,070
Total stockholders' equity	16,579,297	12,845,116
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$35,180,913	$33,422,248

See notes to condensed consolidated financial statements.

ENSERVCO CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

	For the Three Months Ended June 30, 2014	2013	For the Six Months Ended June 30, 2014	2013
Revenues	$7,294,856	$7,947,635	$32,536,901	$26,514,802
Cost of Revenue	6,449,925	5,702,716	22,741,942	16,262,539
Gross Profit	844,931	2,244,919	9,794,959	10,252,263
Operating Expenses				
General and administrative expenses	1,272,496	1,108,516	2,432,481	1,974,865
Depreciation and amortization	726,424	586,365	1,403,888	1,150,200
Total operating expenses	1,998,920	1,694,881	3,836,369	3,125,065
(Loss) Income from Operations	(1,153,989)	550,038	5,958,590	7,127,198
Other Income (Expense)				
Interest expense	(241,903)	(251,655)	(495,428)	(566,670)
(Loss) Gain on disposals of equipment	(5,129)	-	9,237	306,457
Other income	7,050	10,215	13,950	24,827
Total Other Expense	(239,982)	(241,440)	(472,241)	(235,386)
(Loss) Income Before Tax Expense	(1,393,971)	308,598	5,486,349	6,891,812
Income Tax Benefit (Expense)	542,952	(117,691)	(2,151,412)	(2,766,874)
Net (Loss) Income	$(851,019)	$190,907	$3,334,937	$4,124,938
Other Comprehensive Income (Loss)				
Unrealized gain (loss) on interest rate swaps, net of tax	483	(4,135)	(3,290)	6,097
Settlements – interest rate swap	6,517	6,838	13,115	13,592
Reclassified into earnings – interest rate swap	(6,517)	(6,838)	(13,115)	(13,592)
Total Other Comprehensive Income (Loss)	483	(4,135)	(3,290)	6,097
Comprehensive (Loss) Income	$(850,536)	$186,772	$3,331,647	$4,131,035
(Loss) Earnings per Common Share – Basic	$(0.02)	$0.01	$0.09	$0.13

(Loss) Earnings per Common Share – Diluted	$(0.02)	$0.01	$0.09	$0.12
Basic weighted average number of common shares outstanding	36,514,889	32,099,332	36,126,647	31,963,070
Add: Dilutive shares assuming exercise of options and warrants	-	3,589,220	2,466,052	3,444,113
Diluted weighted average number of common shares outstanding	36,514,889	35,688,552	38,592,699	35,407,183

See notes to condensed consolidated financial statements.

ENSERVCO CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
OPERATING ACTIVITIES				
Net (loss) income	$(851,019)	$190,907	$3,334,937	$4,124,938
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization	726,424	586,365	1,403,888	1,150,200
Loss (gain) on disposal of equipment	5,129	-	(9,237)	(306,457)
Deferred income taxes	129,780	978,087	129,831	2,117,472
Stock-based compensation	71,935	260,054	148,280	328,776
Amortization of debt issuance costs	81,325	76,945	162,649	153,888
Bad debt expense	40,000	44,163	50,000	170,397
Changes in operating assets and liabilities				
Accounts receivable	13,781,701	8,198,556	7,642,639	2,443,208
Inventories	(75,912)	(19,805)	(128,721)	(11,586)
Prepaid expense and other current assets	(193,869)	89,437	(563,765)	(396,642)
Other non-current assets	-	-	(14,001)	(169,120)
Accounts payable and accrued liabilities	(707,265)	(1,663,196)	(642,754)	(1,729,538)
Income taxes payable	(1,786,322)	(863,153)	(302,008)	646,144
Net cash provided by operating activities	11,221,907	7,878,360	11,211,738	8,521,680
INVESTING ACTIVITIES				
Purchases of property and equipment	(5,099,341)	(1,245,758)	(6,604,490)	(1,837,511)
Proceeds from sale and disposal of equipment	-	-	50,000	1,802,333
Net cash used in investing activities	(5,099,341)	(1,245,758)	(6,554,490)	(35,178)
FINANCING ACTIVITIES				
Net line of credit payments	(1,158,971)	(1,234,447)	-	(2,151,052)
Proceeds from exercise of warrants	98,175	-	187,804	-
Proceeds from exercise of stock options	25,200	-	66,450	-
Repayment on long-term debt	(578,715)	(466,721)	(1,156,989)	(1,134,372)
Payments upon interest rate swap settlements	-	-	-	-
Net cash used in financing activities	(1,614,311)	(1,701,168)	(902,735)	(3,285,424)
Net Increase in Cash and Cash Equivalents	4,508,255	4,931,434	3,754,513	5,201,078
Cash and Cash Equivalents, Beginning of Period	1,114,448	803,271	1,868,190	533,627

Cash and Cash Equivalents, End of Period	$5,622,703	$5,734,705	$5,622,703	$5,734,705
Supplemental cash flow information:				
Cash paid for interest	$106,642	$147,713	$319,571	$375,465
Cash paid for taxes	$1,112,000	$2,757	$2,325,257	$3,257
Supplemental Disclosure of Non-cash Investing and Financing Activities:				
Equipment purchased through installment loans	$-	$89,591	$-	$89,591
Cashless exercise of stock options and warrants	$1,572	$1,836	$7,168	$1,836

See notes to condensed consolidated financial statements.

ENSERVCO CORPORATION

Notes to the Condensed Consolidated Financial Statements (Unaudited)

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"), HE Services LLC, and Real GC LLC (collectively, the "Company") as of December 31, 2013 and June 30, 2014 and the results of operations for the three and six months ended June 30, 2014 and 2013.

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

Name	State of Formation	Ownership	Business
Dillco Fluid Service, Inc.	Kansas	100% by Enservco	Oil and natural gas field fluid logistic services.
Heat Waves Hot Oil Service, LLC	Colorado	100% by Enservco	Oil and natural gas well services, including logistics and stimulation.
HE Services, LLC	Nevada	100% by Heat Waves	No active business operations. Owns construction equipment used by Heat Waves.
Real GC, LLC	Colorado	100% by Heat Waves	No active business operations. Owns real property in Garden City, Kansas that is utilized by Heat Waves.

On May 29, 2013, three of the Company's former subsidiaries, being Trinidad Housing, LLC, Aspen Gold Mining Company, and Heat Waves, LLC, were dissolved and Enservco Frac Services, LLC is being dissolved by operation of law. None of these dissolved subsidiaries was engaged in active business operations prior to dissolution. As part of a corporate reorganization in May 2013, Dillco transferred its ownership in Heat Waves to Enservco through a tax free exchange.

The accompanying unaudited Condensed Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form 10-Q and

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

The accompanying unaudited Condensed Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and follow the same accounting policies and methods of their application as the most recent annual financial statements. These interim financial statements should be read in conjunction with the financial statements and related footnotes included in the Annual Report on Form 10-K of Enservco Corporation for the year ended December 31, 2013. All significant inter-company balances and transactions have been eliminated in the accompanying consolidated financial statements.

The accompanying Condensed Consolidated Balance Sheet at December 31, 2013 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

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 collection experience related to accounts receivable coupled with a review of the current status of existing receivables. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance. As of June 30, 2014 and December 31, 2013, the Company had an allowance for doubtful accounts of $295,000 and $245,000, respectively. For the three and six months ended June 30, 2014, the Company recorded bad debt expense (net of recoveries) of $40,000 and $50,000, respectively. For the three and six months ended June 30, 2013, the Company recorded bad debt expense (net of recoveries) of $44,163 and $170,397, respectively.

Inventory

Inventory consists primarily of propane, diesel fuel and chemicals 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 undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. No impairments were recorded during the three and six month periods ended June 30, 2014 and 2013.

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 expands the capacity or efficiency of the assets. Depreciation is recorded on a straight-line basis over estimated useful lives of 5 to 30 years.

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 August 2017. 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 Company has also in the past 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. There are no outstanding capital leases as of June 30, 2014.

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 June 30, 2014 and 2013, there were outstanding stock options and warrants to acquire an aggregate of 3,917,063 and 8,867,226 shares of Company common stock, respectively, which have a potentially dilutive impact on earnings per share. For the six months ended June 30, 2014, 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 2,466,052 shares. Dilution is not permitted if there are net losses during the period. As such, the Company does not show dilutive earnings per share for the three months ended June 30, 2014. For the three and six months ended June 30, 2013, 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 3,589,220 and 3,444,113 shares, respectively.

Intangible Assets

Non-Competition Agreements. The non-competition agreements with the sellers of Heat Waves and Dillco have finite lives and were being amortized over a five-year period. All non-competition agreements were fully amortized as of June 30, 2013. Amortization expense for the three and six months ended June 30, 2013 totaled $15,000 and $30,000, respectively.

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 an 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, 2013, the Company performed the annual impairment test and determined that no impairment existed. For the three and six month periods ended June 30, 2014 and 2013, the Company did not note any events that occurred, nor did any circumstances change, that would require goodwill to be assessed for impairment.

Loan Fees and Other Deferred Costs

In the normal course of business, the Company 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.

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 June 30, 2014. The Company files tax returns in the United States and in the states in which it conducts its business operations. The tax years 2010 through 2013 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 six months ended June 30, 2014. 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 Black-Scholes pricing model as a method for determining the estimated fair value for all stock options awarded to employees, officers, and directors. The expected term of the options is based upon evaluation of historical and expected further exercise behavior. The risk-free interest rate is based upon U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life of the grant. Volatility is determined upon historical volatility of our stock and adjusted if future volatility is expected to vary from historical experience. The dividend yield is assumed to be none as we have not paid dividends nor do we anticipate paying any dividends in the foreseeable future.

The Company also uses the Black-Scholes valuation model to determine the fair value of warrants. Expected volatility is based upon the weighted average of historical volatility over the contractual term of the warrant and implied volatility. The risk-free interest rate is based upon implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the contractual term of the warrants. The dividend yield is assumed to be none.

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.

Accounting Pronouncements

Recently Issued

In April 2014, the FASB issued ASU No. 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of a Component of an Entity.” ASU 2014-08 changes the criteria for reporting discontinued operations and requires new disclosures for discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This pronouncement is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2014. Other than the additional presentation and disclosure requirements, the adoption of this guidance is not expected to have an effect on the Company’s consolidated financial position, results of operations, or cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard is effective as of the first interim period within annual reporting periods beginning on or after December 15, 2016, and will replace most existing revenue recognition guidance in U.S. GAAP. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method or determined the effect of the standard on its financial position, results of operations, cash flows, or presentation thereof.

Note 3 - Property and Equipment

Property and equipment consists of the following:

	June 30, 2014	December 31, 2013
Trucks and vehicles	$28,726,978	$27,240,551
Trucks in process	5,730,775	1,205,936
Other equipment	3,064,386	2,820,674
Buildings and improvements	2,553,198	2,364,353
Land	596,420	596,420
Disposal wells	367,330	367,330
Total property and equipment	41,039,087	34,595,264
Accumulated depreciation	(18,453,420)	(17,169,436)
Property and equipment - net	$22,585,667	$17,425,828

Depreciation expense on property and equipment for the three months ended June 30, 2014 and 2013 totaled $726,424 and $571,365, respectively. Depreciation expense for the six months ended June 30, 2014 and 2013 totaled $1,403,888 and $1,120,200, respectively.

Note 4 – Long-Term Debt

Long-term debt consists of the following:

	June 30, 2014	December 31, 2013
PNC Term Loan, original principal balance of $11,000,000 at issuance, amended to $12,428,576 in November 2013, payable in twenty-three fixed monthly principal installments of $172,620 beginning November 2013, with the remaining principal due	$11,047,616	$12,083,336

November 2, 2015. Variable interest rate based of 4.25% plus 1 month LIBOR for Eurodollar Rate Loans and interest at PNC Base Rate plus 2.25% for Domestic Rate Loans, collateralized by equipment, inventory, and accounts of the Company and subject to financial covenants. The interest rate at June 30, 2014 was 4.4%. $3,500,000 of this loan is guaranteed by the Company's Chairman.		
Real Estate Loan for our facility in North Dakota, interest at 3.75%, monthly principal and interest payment of $5,255 ending October 3, 2028. Collateralized by land and property purchased with the loan. $100,000 of loan is guaranteed by the Company's Chairman.	695,618	713,756
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; paid in monthly installments of $3,000 per agreement with the IRS.	263,000	281,000
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 and guaranteed by the Company's Chairman.	130,884	153,018
Note payable entered into with a lending institution 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.	115,356	138,269
Mortgage payable to a bank, interest at 5.9%, payable monthly through January 2017 with a balloon payment of $88,118 on February 1, 2017, secured by land.	121,108	126,750
Notes payable to a vehicle finance company, interest at fixed rates from 4.89% to 7.8%, due in monthly installments through March 2016, secured by vehicles, guaranteed by one of the stockholders.	32,313	42,961
Note payable entered into with a lending institution in order to purchase equipment, interest at a fixed rate of 8.2%. Term of 60 months, due in monthly installments through January 2017, secured by equipment purchased with the note.	23,832	27,875
Note payable to vehicle finance companies, interest rates from 4.74% to 4.99%, terms from 49 to 60 months, due in monthly installments through November 2018, secured by equipment purchased with the note.	175,473	195,224
Total	12,605,200	13,762,189
Less current portion	(2,634,978)	(2,562,141)
Long-term debt, net of current portion	$9,970,222	$11,200,048

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Aggregate maturities of debt are as follows:

Twelve Months Ending June 30,	
2015	$2,634,978
2016	9,142,438
2017	201,781
2018	82,995
2019	48,546
Thereafter	494,462
Total	$12,605,200

Revolving Line of Credit

The revolving line of credit has a maximum borrowing capacity of $5,000,000. As of June 30, 2014, the Company had borrowing availability of approximately $1.7 million. As of June 30, 2014 and December 31, 2013, there was no outstanding balance on the revolving line of credit.

Covenant Compliance

At June 30, 2014, the Company did not meet one of the financial covenants imposed by the PNC loan agreements which resulted in an event of default under the loan documents. PNC has waived the effect of this event of default for the period. As a result of the waiver, no default was declared. The Company believes that it is in line to meet the debt covenants and all other future covenant requirements.

Interest Rate Swap

On November 13, 2012 the Company entered into an Interest Rate Swap Agreement (“swap”) with PNC with a nominal value of $11,000,000 in order to hedge the cash flow requirements for the variable interest rate associated with the PNC Term Loan. The floating variable interest rate associated with the Term Loan debt of 4.25% plus LIBOR was swapped for a fixed rate of 4.25% plus 0.64% for the duration of the Term Loan.

At June 30, 2014, an updated valuation was performed resulting in a current liability of $8,370 (classified as *Accounts payable and accrued liabilities*) and a long-term asset of $9,627 (classified as *Other Assets*) associated with the swap.

The Company determined that there was no ineffectiveness to the cash flow hedge and recorded changes in value to other comprehensive income.

Note 5 – 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 six months ended June 30, 2014 and 2013 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 6 – Commitments and Contingencies

Operating Leases

As of June 30, 2014, the Company leases facilities and certain trucks and equipment under lease commitments that expire through August 2017. Future minimum lease commitments for these operating lease commitments are as follows:

Twelve Months Ending June 31,	
2015	$794,508
2016	