

Enservco Corp  
Form 10-Q  
November 14, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-36335

**ENSERVCO CORPORATION**

(Exact Name of registrant as Specified in its Charter)

Edgar Filing: Enservco Corp - Form 10-Q

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**84-0811316**

(IRS Employer

Identification No.)

**501 South Cherry St., Ste. 1000**

**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 ☒ 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 ☒ 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 ☒

Emerging growth company

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

Edgar Filing: Enservco Corp - Form 10-Q

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.

<b>Class</b>	<b>Outstanding at November 7, 2018</b>
Common stock, \$.005 par value	<b>54,344,829</b>

1

---

Table of Contents

**TABLE OF CONTENTS**

	<u>Page</u>
 <b><u>Part I – Financial Information</u></b>	
 <b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>41</u>
<u>Item 4. Controls and Procedures</u>	<u>41</u>
 <b><u>Part II</u></b>	
<u>Item 1. Legal Proceedings</u>	<u>42</u>
<u>Item 1A. Risk Factors</u>	<u>42</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>43</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>43</u>
<u>Item 5. Other Information</u>	<u>43</u>
<u>Item 6. Exhibits</u>	<u>44</u>

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ENSERVCO CORPORATION AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(In thousands)**

	<b>September 30, 2018 (Unaudited)</b>	<b>December 31, 2017</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 39	\$ 391
Accounts receivable, net	3,132	11,761
Prepaid expenses and other current assets	977	868
Inventories	525	576
Income tax receivable, current	57	57
Total current assets	4,730	13,653
Property and equipment, net	26,120	29,417
Income taxes receivable, noncurrent	57	57
Other assets	902	1,123
<b>TOTAL ASSETS</b>	<b>\$ 31,809</b>	<b>\$ 44,250</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,047	\$ 5,465
Current portion of long-term debt	112	182
Total current liabilities	2,159	5,647
Long-Term Liabilities		
Senior revolving credit facility	22,570	27,066
Subordinated debt	1,820	2,229
Long-term debt, less current portion	243	252
Warrant liability	-	831

Edgar Filing: Enservco Corp - Form 10-Q

Total long-term liabilities	24,633	30,378
Total liabilities	26,792	36,025
Commitments and Contingencies ( Note 8)		
Stockholders' Equity		
Preferred stock, \$.005 par value, 10,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, \$.005 par value, 100,000,000 shares authorized, 54,344,829 and 51,197,989 shares issued, respectively; 103,600 shares of treasury stock; and 54,241,229 and 51,094,389 shares outstanding, respectively	271	255
Additional paid-in capital	21,695	19,571
Accumulated (deficit) earnings	(16,949 )	(11,601 )
Total stockholders' equity	5,017	8,225
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 31,809	\$ 44,250

See notes to condensed consolidated financial statements.

Table of Contents**ENSERVCO CORPORATION AND SUBSIDIARIES****Condensed Consolidated Statements of Operations****(In thousands except per share amounts)****(Unaudited)**

	<b>For the Three Months Ended September 30, 2018      2017</b>		<b>For the Nine Months Ended September 30, 2018      2017</b>	
Revenues				
Well enhancement services	\$3,200	\$4,033	\$29,490	\$21,836
Water transfer services	634	798	2,558	1,856
Water hauling services	638	911	2,337	2,677
Other	-	-	-	254
Total revenues	4,472	5,742	34,385	26,623
Expenses				
Well enhancement services	3,946	4,162	22,937	16,936
Water transfer services	650	822	2,586	2,114
Water hauling services	733	801	2,634	2,906
Functional support and other	141	216	467	857
Sales, general, and administrative expenses	1,192	1,139	3,803	3,423
Patent litigation and defense costs	2	29	77	96
Severance and transition costs	-	16	633	784
Depreciation and amortization	1,483	1,618	4,669	4,869
Total operating expenses	8,147	8,803	37,806	31,985
(Loss) Income from Operations	(3,675 )	(3,061 )	(3,421 )	(5,362 )
Other (Expense) Income				
Interest expense	(471 )	(599 )	(1,482 )	(1,809 )
Gain on disposals	-	-	53	-
Other income (expense)	38	(264 )	(467 )	(222 )
Total other expense	(433 )	(863 )	(1,896 )	(2,031 )
Loss Before Tax (Expense) Benefit	(4,108 )	(3,924 )	(5,317 )	(7,393 )
Income Tax Benefit (Expense)	-	1,415	(32 )	2,407
Net Loss	\$(4,108 )	\$(2,509 )	\$(5,349 )	\$(4,986 )
Earnings (loss) per Common Share - Basic	\$(0.08 )	\$(0.05 )	\$(0.10 )	\$(0.10 )

Edgar Filing: Enservco Corp - Form 10-Q

Earnings (loss) per Common Share – Diluted	\$ (0.08 ) \$ (0.05 ) \$ (0.10 ) \$ (0.10 )			
Basic weighted average number of common shares outstanding	54,309	51,068	52,389	51,068
Add: Dilutive shares	-	-	-	-
Diluted weighted average number of common shares outstanding	54,309	51,068	52,389	51,068

See notes to condensed consolidated financial statements.



Table of Contents**ENSERVCO CORPORATION AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	<b>For the Nine Months Ended September 30, 2018</b>		<b>2017</b>	
<b>OPERATING ACTIVITIES</b>				
Net loss	\$	(5,349 )	\$	(4,986 )
Adjustments to reconcile net loss to net cash provided by operating activities				
Depreciation and amortization		4,669		4,869
Deferred income taxes		-		(2,294 )
Gain on disposal of equipment		(53 )		-
Stock-based compensation		291		572
Change in fair value of warrant		540		280
Amortization of debt issuance costs and discount		164		448
Provision for bad debt expense		32		93
Changes in operating assets and liabilities				
Accounts receivable		8,597		755
Inventories		50		(24 )
Prepaid expense and other current assets		(90 )		65
Income taxes receivable		-		224
Other assets		231		(610 )
Accounts payable and accrued liabilities		(3,418 )		56
Net cash provided by (used in) operating		5,664		(552 )

activities

**INVESTING  
ACTIVITIES**

Purchases of property and equipment	(1,630 )	(1,284 )
Proceeds from insurance claims	122	-
Proceeds from disposal of equipment	145	121
Net cash used in investing activities	(1,363 )	(1,163 )

**FINANCING  
ACTIVITIES**

Net line of credit (payments) borrowings	(4,544 )	790
Proceeds from issuance of long-term debt	-	1,000
Repayment of long-term debt	(79 )	(180 )
Other financing	(30 )	(36 )
Net cash (used in) provided by financing activities	(4,653 )	1,574

**Net Increase  
(Decrease) in Cash  
and Cash  
Equivalents**

(352 ) (141 )

**Cash and Cash  
Equivalents,  
beginning of period**

391 621

**Cash and Cash  
Equivalents, end of  
period**

\$ 39 \$ 480

**Supplemental cash  
flow information:**

Cash paid for interest	\$ 1,273	\$ 303
Cash paid (received) for taxes	\$ 32	\$ (222 )

**Supplemental  
Disclosure of  
Non-cash Investing**

**and Financing****Activities:**

Non-cash proceeds from revolving credit facilities	\$	103		\$	1,124	
Cashless exercise of stock options	\$	994		\$	-	
Non-cash proceeds from warrant exercise	\$	500		\$	-	
Non-cash subordinated debt principal repayment	\$	(500	)	\$	-	
Non-cash conversion of warrant liability to equity	\$	1,371			-	
Non-cash proceeds from subordinated debt borrowings	\$	-		\$	1,500	
Non-cash repayment of revolving credit facility	\$	-		\$	(1,500	)

See notes to condensed consolidated financial statements.

Table of Contents**ENSERVCO CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****Note 1 – Basis of Presentation**

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

The accompanying unaudited condensed consolidated financial statements have been derived from the accounting records of Enservco Corporation, Heat Waves Hot Oil Service LLC (“Heat Waves”), Dillco Fluid Service, Inc. (“Dillco”), Heat Waves Water Management LLC (“HWWM”), HE Services LLC (“HES”), and Real GC LLC (“Real GC”) (collectively, the “Company”) as of *September 30, 2018* and *December 31, 2017* and the results of operations for the *three and nine months ended September 30, 2018 and 2017*.

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

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

Edgar Filing: Enservco Corp - Form 10-Q

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

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

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

Table of Contents

**Note 2 - Summary of Significant Accounting Policies**

*Cash and Cash Equivalents*

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

*Accounts Receivable*

Accounts receivable are stated at the amounts billed to customers, net of an allowance for uncollectible accounts. The Company provides an allowance for uncollectible accounts based on a review of outstanding receivables, historical collection information and existing economic conditions. The allowance for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical collection experience related to accounts receivable coupled with a review of the current status of existing receivables. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance. As of *September 30, 2018*, and *December 31, 2017*, the Company had an allowance for doubtful accounts of approximately \$63,000 and \$70,000, respectively. For the three months ended September 30, 2018, the Company did not record any bad debt expense. For the nine months ended September 30, 2018, the Company recorded approximately \$32,000 of bad debt expense. For the *three and nine* months ended *September 30, 2017*, the Company recorded bad debt expense (net of recoveries) of approximately \$44,000 and \$93,000, respectively.

*Inventories*

Inventory consists primarily of propane, diesel fuel and chemicals that are used in the servicing of oil wells and is carried at the lower of cost or net realizable value in accordance with the *first in, first out* method (FIFO). The Company periodically reviews the value of items in inventory and provides write-downs or write-offs, of inventory based on its assessment of market conditions. Write-downs and write-offs are charged to cost of goods sold. For the *three and nine* months ended *September 30, 2018* and *2017*, *no* amounts were expensed for write-downs and write-offs.

### *Property and Equipment*

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

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

### *Leases*

The Company conducts a major part of its operations from leased facilities. Each of these leases is accounted for as an operating lease. Normally, the Company records rental expense on its operating leases over the lease term as it becomes payable. If rental payments are *not* made on a straight-line basis, per terms of the agreement, the Company records a deferred rent expense and recognizes the rental expense on a straight-line basis throughout the lease term. The majority of the Company's facility leases contain renewal clauses and expire through August 2022. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. The Company amortizes leasehold improvements over the shorter of the life of the lease or the life of the improvements. As of *September 30, 2018*, and *December 31, 2017*, the Company had a deferred rent liability of approximately \$86,000 and \$96,000, respectively.

The Company has leased equipment in the normal course of business, which are recorded as operating leases. The Company recorded rental expense on equipment under operating leases over the lease term as it becomes payable; there were *no* rent escalation terms associated with these equipment leases. The equipment leases contain purchase options that allow the Company to purchase the leased equipment at the end of the lease term, based on the market price of the equipment at the time of the lease termination. There are *no* significant equipment leases outstanding as of *September 30, 2018*.

## Table of Contents

### *Long-Lived Assets*

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset *may not* be recovered. The Company reviews both qualitative and quantitative aspects of the business during the analysis of impairment. During the quantitative review, the Company reviews the undiscounted future cash flows in its assessment of whether or *not* long-lived assets have been impaired. *No* impairments were recorded during the *three or nine* months ended *September 30, 2018* and *2017*.

### *Revenue Recognition*

As described below, we adopted Accounting Standards Update *2014-09*, Revenue - Revenue from Contracts with Customers, Accounting Standards Codification ("ASC") Topic *606*, beginning *January 1, 2018*, using the modified retrospective approach, which we have applied to contracts within the scope of the standard. There was no material impact on the Company's condensed consolidated financial statements from adoption of this new standard. The Company evaluates revenue when we can identify the contract with the customer, the performance obligations in the contract, the transaction price, and we are certain that the performance obligations have been met. Revenue is recognized when the service has been provided to the customer, which includes estimated amounts for services rendered but *not* invoiced at the end of each accounting period. The vast majority of the Company's services and product offerings are short-term in nature. The time between invoicing and when payment is due under these arrangements is generally *30 to 60* days.

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

Revenue is recognized for certain projects that take more than one day projects over time based on the number of days during the reporting period and the agreed upon price as work progresses on each project. Revenue that has been earned but *not* yet invoiced at *September 30, 2018* and *December 31, 2017* was approximately *\$53,000* and *\$1.7* million, respectively. Such amounts are included within Accounts receivable, net in the Condensed Consolidated Balance Sheets.

### *Disaggregation of revenue*

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



*Earnings (Loss) Per Share*

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

As of *September 30, 2018*, and *2017*, there were outstanding stock options and warrants to acquire an aggregate of 2,656,099 and 5,749,433 shares of Company common stock, respectively, which have a potentially dilutive impact on earnings per share. As of *September 30, 2018*, the aggregate intrinsic value of outstanding stock options and warrants was approximately \$836,000. Dilution is not permitted if there is a net loss during the period. As such, the Company does not show dilutive earnings per share for the three and nine months ended September 30, 2018 and 2017.

*Loan Fees and Other Deferred Costs*

In the normal course of business, the Company enters into loan agreements and amendments thereto with its primary lending institutions. The majority of these lending agreements and amendments require origination fees and other fees in the course of executing the agreements. For all costs associated with the execution of the line-of-credit arrangements, the Company recognizes these as capitalized costs and amortizes these costs over the term of the loan agreement. All other costs *not* associated with the execution of the loan agreements are expensed as incurred. As of *September 30, 2018*, we had approximately \$202,000 in unamortized loan fees and other deferred costs associated with the Loan and Security Agreement (the "*2017 Credit Agreement*") with East West Bank, a California banking corporation ("*East West Bank*"), recorded in Other Assets which we expect to charge to expense ratably over the *three-year* term of that agreement.

## Table of Contents

### *Derivative Instruments*

From time to time, the Company has interest rate swap agreements in place to hedge against changes in interest rates. The fair value of the Company's derivative instruments are reflected as assets or liabilities on the balance sheet. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative instrument and the resulting designation. Transactions related to the Company's derivative instruments accounted for as hedges are classified in the same category as the item hedged in the consolidated statement of cash flows. The Company did *not* hold derivative instruments at *September 30, 2018* or *December 31, 2017*, for trading purposes.

On *February 23, 2018*, we entered into an interest rate swap agreement with East West Bank in order to hedge against the variability in cash flows from future interest payments related to the *2017* Credit Agreement. The terms of the interest rate swap agreement included an initial notional amount of *\$10.0* million, a fixed payment rate of *2.52% paid by us and a floating payment rate equal to LIBOR paid by East West Bank*. The purpose of the swap agreement is to adjust the interest rate profile of our debt obligations. The fair value of the interest rate swap agreement is recorded in Other Assets and changes to the fair value are recorded to Other Income (Expense).

On *September 17, 2015*, we entered into an interest rate swap agreement with PNC in order to hedge against the variability in cash flows from future interest payments related to the *2014* Credit Agreement. The terms of the interest rate swap agreement included an initial notional amount of *\$10.0* million, a fixed payment rate of *1.88% plus applicable a margin ranging from 4.50% to 5.50% paid by us and a floating payment rate equal to LIBOR plus applicable margin of 4.50% to 5.50% paid by PNC*. The purpose of the swap agreement was to adjust the interest rate profile of our debt obligations and to achieve a targeted mix of floating and fixed rate debt.

In connection with the termination of the *2014* Credit Agreement, on *August 10, 2017*, we terminated the interest rate swap agreement with PNC. Changes in the fair value of the interest rate swap agreement were recorded in earnings. The Company was *not* party to any derivative instruments as of *December 31, 2017*.

### *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. 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* to be realized.

The Company accounts for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if, in the Company's opinion, 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.

## Table of Contents

Interest and penalties associated with tax positions are recorded in the period assessed as income tax expense. The Company files income tax returns in the United States and in the states in which it conducts its business operations. The Company's United States federal income tax filings for tax years 2013 through 2017 remain open to examination. In general, the Company's various state tax filings remain open for tax years 2013 to 2017.

### *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. Beginning in 2017 the Company valued its warrants using the Binomial Lattice model ("Lattice"). The Company did *not* have any transfers between hierarchy levels during the *three and nine* months ended *September 30, 2018* or *2017*, respectively. 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*

Stock-based compensation cost is measured at the date of grant, based on the calculated fair value of the award as described below, and is recognized over the requisite service period, which is generally the vesting period of the

equity grant.

The Company uses the Black-Scholes pricing model as a method for determining the estimated grant date fair value for all stock options awarded to employees, independent contractors, 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 uses a Lattice model to determine the fair value of certain warrants. The expected term used was the remaining contractual term. Expected volatility is based upon historical volatility over a term consistent with the remaining term. The risk-free interest rate is derived from the yield on *zero*-coupon U.S. government securities with a remaining term equal to the contractual term of the warrants. The dividend yield is assumed to be zero.

The Company used the market-value of Company stock to determine the fair value of the performance-based restricted stock awarded in June 2018. The fair-value is updated quarterly based on actual forfeitures.

The Company used a Monte Carlo simulation program to determine the fair value of market-based restricted stock awarded in June 2018.

### *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. Significant estimates include the realization of accounts receivable, stock-based compensation expense, income tax provision, the valuation of derivative financial instruments (warrants and interest rate swaps), and the valuation of deferred taxes. Actual results could differ from those estimates.

## Table of Contents

### *Reclassifications*

Certain prior-period amounts have been reclassified for comparative purposes to conform to the current presentation. These reclassifications have *no* effect on the Company's consolidated statement of operations.

### *Accounting Pronouncements*

In *February 2016*, the FASB issued ASU 2016-02 "Leases (Topic 842)", which requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after *December 15, 2018*, including interim periods within those fiscal years. Either a modified retrospective transition approach for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, or a prospective approach recognizing the cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption is required. We continue to evaluate the impact of this new standard on our consolidated financial statements. Once adopted, the Company expects to recognize additional assets and liabilities on its consolidated balance sheet related to operating leases with terms longer than *one* year.

### *Recently Adopted*

In *May 2014*, the Financial Accounting Standards Board ("FASB") issued new revenue recognition guidance under Accounting Standards Update ("ASU") 2014-09 that superseded the existing revenue recognition guidance under GAAP. The new standard focuses on creating a single source of revenue guidance for revenue arising from contracts with customers for all industries. The objective of the new standard is for companies to recognize revenue when it transfers the promised goods or services to its customers at an amount that represents what the company expects to be entitled to in exchange for those goods or services. In *July 2015*, the FASB deferred the effective date by *one* year (ASU 2015-14). This ASU is now effective for annual periods, and interim periods within those annual periods, beginning on or after *December 15, 2017*. Since the issuance of the original standard, the FASB has issued several other subsequent updates including the following: 1) clarification of the implementation guidance on principal versus agent considerations (ASU 2016-08); 2) further guidance on identifying performance obligations in a contract as well as clarifications on the licensing implementation guidance (ASU 2016-10); 3) rescission of several SEC Staff Announcements that are codified in Topic 605 (ASU 2016-11); and 4) additional guidance and practical expedients in response to identified implementation issues (ASU 2016-12). The Company adopted the new guidance effective *January 1, 2018* using the modified retrospective approach, which recognizes the cumulative effect of application recognized on that date. The adoption of this standard had *no* impact on our consolidated financial statements; however, our footnote disclosure was expanded.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force) (ASU 2016-15)", that clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than *one* class of cash flows. The guidance will be effective for annual periods beginning after *December 15, 2017* and interim periods within those annual periods. Early adoption is permitted. The Company adopted the new guidance effective on *January 1, 2018* using a retrospective transition method to each period presented. The adoption of ASU 2016-15 did *not* result in any impact to the presentation of our statement of cash flows.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," that clarifies the definition of a business. This ASU provides a screen to determine whether a group of assets constitutes a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated as acquisitions. If the screen is not met, this ASU (1) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output and (2) removes the evaluation of whether a market participant could replace missing elements. Although outputs are not required for a set to be a business, outputs generally are a key element of a business; therefore, the FASB has developed more stringent criteria for sets without outputs. We adopted this ASU in the first quarter of 2018 and the adoption of this ASU did not have a material impact on the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting," which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The Company adopted this ASU on January 1, 2018, and the adoption did not have a material impact on the Company's consolidated financial statements.

Table of Contents**Note 3 - Property and Equipment**

Property and equipment consists of the following (amounts in thousands):

	September 30, 2018	December 31, 2017
Trucks and vehicles	\$ 55,193	\$ 54,925
Water transfer equipment	5,148	4,688
Other equipment	3,164	3,160
Buildings and improvements	3,553	3,551
Land	681	681
Disposal wells	391	391
Total property and equipment	68,130	67,396
Accumulated depreciation	(42,010 )	(37,979 )
Property and equipment – net	\$ 26,120	\$ 29,417

**Note 4 – Revolving Credit Facilities*****East West Bank Revolving Credit Facility***

On August 10, 2017, we entered into the 2017 Credit Agreement with East West Bank, which provides for a three-year \$30 million senior secured revolving credit facility (the "New Credit Facility"). The 2017 Credit Agreement allows us to borrow up to 85% of our eligible receivables and up to 85% of the appraised value of our eligible equipment. Under the 2017 Credit Agreement, there are *no* required principal payments until maturity and we have the option to pay variable interest rate based on (i) 1-month LIBOR plus a margin of 3.5% or (ii) interest at the Wall Street Journal prime rate plus a margin of 1.75%. Interest is calculated monthly and paid in arrears. Additionally, the New Credit Facility is subject to an unused credit line fee of 0.5% per annum multiplied by the amount by which total availability exceeds the average monthly balance of the New Credit Facility, payable monthly in arrears. The New Credit Facility is collateralized by substantially all of our assets and subject to financial covenants. The outstanding principal loan balance matures on August 10, 2020. Under the terms of the 2017 Credit Agreement, collateral proceeds are collected in bank-controlled lockbox accounts and credited to the New Credit Facility within one business day.

As of September 30, 2018, we had an outstanding principal loan balance under the 2017 Credit Agreement of approximately \$22.6 million with a weighted average interest rates of 5.70% per year for \$21.5 million of outstanding LIBOR Rate borrowings and 7.0% per year for the approximately \$1.1 million of outstanding Prime Rate borrowings.



As of *September 30, 2018*, approximately \$2.9 million was available to be drawn under the *2017* Credit Agreement, subject to limitations including the minimum liquidity covenant described below.

Under the *2017* Credit Agreement, we are subject to the following financial covenants:

(1) Maintenance of a Fixed Charge Coverage Ratio (“FCCR”) of *not* less than *1.10* to *1.00* at the end of each month, with a build up beginning on *January 1, 2017*, through *December 31, 2017*, upon which the ratio is measured on a trailing *twelve*-month basis;

(2) In periods when the trailing *twelve*-month FCCR is less than *1.20* to *1.00*, we are required to maintain minimum liquidity of *\$1,500,000* (including excess availability under the *2017* Credit Agreement and balance sheet cash).

Table of Contents

On *August 10, 2017*, an initial advance of approximately \$21.8 million was made under the New Credit Facility to repay in full all obligations outstanding under our 2014 Credit Agreement described below, and to fund certain closing costs and fees.

On *November 20, 2017*, we entered into a First Amendment and Waiver (the "Amendment and Waiver") with respect to the 2017 Credit Agreement. Pursuant to the Amendment and Waiver, East West Bank waived an event of default with respect to the Company's failure to satisfy the minimum fixed charge coverage ratio set forth in the 2017 Credit Agreement for the reporting period ended *September 30, 2017* and permitted the Company to forego testing of its fixed charge coverage ratio as of *October 31, 2017* and *November 30, 2017*.

As of *September 30, 2018*, our available liquidity was approximately \$2.8 million, which was substantially comprised of \$2.8 million of availability under the 2017 Credit Agreement and approximately \$39,000 in cash.

As of *September 30, 2018*, we were in compliance with all covenants contained in the 2017 Credit Agreement.

***PNC Revolving Credit Facility***

On *March 31, 2017*, we entered into the Tenth Amendment to the Amended and Restated Revolving Credit and Security Agreement (the "2014 Credit Agreement") with PNC Bank, National Association ("PNC") that among other things (i) required us to raise \$1.5 million in subordinated debt or post a letter of credit in favor of PNC by *March 31, 2017*; (ii) raise an additional \$1 million of subordinated debt by *May 15, 2017*; (iii) reduced the maturity date of the loan from *September 12, 2019* to *April 30, 2018*; (iv) changed the definition of Adjusted EBITDA to include proceeds from subordinated debt; and (v) changed the calculation of fixed charge and leverage ratio from a trailing *four-quarter* basis to a quarterly build from the quarter ended *December 31, 2016*.

On *March 31, 2017*, our largest shareholder, Cross River Partners, L.P. ("Cross River"), whose general partner's managing member is the chairman of our Board of Directors, posted a letter of credit in the amount of \$1.5 million in accordance with the terms of the Tenth Amendment to the 2014 Credit Agreement. The letter of credit was converted into subordinated debt with a maturity date of *June 28, 2022* with a stated interest rate of 10% per annum and a *five-year* warrant to purchase 967,741 shares of our common stock at an exercise price of \$0.31 per share. On *May 10, 2017*, Cross River also provided \$1.0 million in subordinated debt to us as required under the terms of our Tenth Amendment to the 2014 Credit Agreement. This subordinated debt has a stated annual interest rate of 10% and maturity date of *June 28, 2022*. In connection with this issuance of subordinated debt, Cross River was granted a *five-year* warrant to purchase 645,161 shares of our common stock at an exercise price of \$0.31 per share. On *June 29, 2018* Cross River exercised both warrants and acquired 1,612,902 shares of our \$0.005 par value common stock. Proceeds from the exercise of the warrants in the amount of \$500,000 were used to reduce the subordinated debt balance.

***Debt Issuance Costs***

We have capitalized certain debt issuance costs incurred in connection with the credit agreements discussed above and these costs are being amortized to interest expense over the term of the facility on a straight-line basis. The long-term portion of debt issuance costs of approximately \$202,000 and \$232,000 is included in Other Assets in the accompanying condensed consolidated balance sheets for *September 30, 2018* and *December 31, 2017*, respectively. During the *three* and nine months ended *September 30, 2018*, the Company amortized approximately \$26,000 and \$73,000 of these costs to Interest Expense. During the *three* and nine months ended *September 30, 2017*, the Company amortized approximately \$135,000 and \$427,000 of these costs to Interest Expense. Due to the maturity date of the 2014 Credit Agreement moving from *September 12, 2019* to *April 30, 2018*, the Company recognized an additional \$110,000 and \$317,000 of debt issuance amortization expenses during the three and *nine* months ended *September 30, 2017*.

Table of Contents**Note 5 – Long-Term Debt**

Long-term debt (excluding borrowings under our 2017 Credit Agreement described in Note 4) consists of the following (in thousands):

	September 30, 2018	December 31, 2017
Subordinated Promissory Note. Interest is 10% and is paid quarterly. Matures June 28, 2022	\$ 1,000	\$ 1,500
Subordinated Promissory Note. Interest is 10% and is paid quarterly. Matures June 28, 2022	1,000	1,000
Real Estate Loan for facility in North Dakota, interest at 3.75% and monthly principal and interest payment of \$5,255 until October 3, 2018. Beginning November 3, 2018 interest is 5.75% and monthly principal and interest payment of \$2,875 until October 3, 2028. Collateralized by land and property purchased with the loan	266	309
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 annual installments of \$36,000 per agreement with the IRS	89	125
Total	2,355	2,934
Less debt discount	(180 )	(271 )
Less current portion	(112 )	(182 )
Long-term debt, net of debt discount and current portion	\$ 2,063	\$ 2,481

Aggregate maturities of debt, (excluding borrowings under our 2017 Credit Agreement described in Note 4), are as follows (in thousands):

Twelve Months Ending September 30,	
2019	\$ 112
2020	21
2021	22
2022	2,023
2023	25
Thereafter	152
Total	\$2,355



Table of Contents**Note 6 – Fair Value Measurements**

The following table presents the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis by level within the fair value hierarchy:

	Fair Value Measurement Using			
	Quoted Significant Other Prices in	Significant Observable	Significant Unobservable Inputs (Level 3)	Fair Value Measurement
	(Level 1)	(Level 2)	(Level 3)	
<b>September 30, 2018</b>				
Derivative Instrument				
Interest rate swap asset	\$ -	\$ 64	\$ -	\$ 64
<b>December 31, 2017</b>				
Derivative Instrument				
Warrant liability	\$ -	\$ -	\$ 831	\$ 831

The Company's warrant liability was valued as a derivative instrument at issuance and using a combination of a Brownian Motion technique and a Lattice model, using observable market inputs and management judgment based on the following assumptions. On June 29, 2018, both warrants, entitling the Holder to acquire 1,612,902 shares of our \$0.005 par value common stock were exercised, and proceeds in the amount of \$500,000 were used to reduce the subordinated debt balance.

The fair value of the interest rate swap is estimated using a discounted cash flow model. Such models involve using market-based observable inputs, including interest rate curves. We incorporate credit valuation adjustments to appropriately reflect both our nonperformance risk and respective counterparty's nonperformance risk in the fair value measurements, which we have concluded are *not* material to the valuation. Due to the interest rate swaps being unique and *not* actively traded, the fair value is classified as Level 2.

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are *not* measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. As of

*June 30, 2018, and December 31, 2017*, the carrying value of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and interest approximates fair value due to the short-term nature of such items. The carrying value of the Company's credit agreements are carried at cost which are approximately the fair value of the debt as the related interest rate are at the terms that approximate rates currently available to the Company.

The Company did *not* have any transfers of assets or liabilities between Level 1, Level 2 or Level 3 of the fair value measurement hierarchy during the *three* and nine months ended *September 30, 2018 and 2017*.

Table of Contents

**Note 7 – 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 nine months ended *September 30, 2018* and *2017* differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of *21%* and *34%*, respectively 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.

In assessing the realization of deferred tax assets, management considers whether it is more likely than *not* that some portion or all of the deferred tax assets will *not* be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management recorded a valuation allowance to reduce its net deferred tax assets to zero.

During the nine months ended September 30, 2018, the Company recorded an income tax expense of approximately \$32,000 related to state income taxes owed. During the nine months ended September 30, 2017, the Company recorded an income tax benefit of approximately \$2.4 million.

On *December 22, 2017*, the U.S. government enacted comprehensive tax legislation (the “Tax Act”), which significantly revises the ongoing U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from *35%* to *21%*, implementing a territorial tax system, imposing a *one*-time tax on foreign unremitted earnings and setting limitations on deductibility of certain costs, among other things.



The Company is subject to the provisions of the Financial Accounting Standards Board (“FASB”) ASC 740-10, Income Taxes, which requires that the effect on deferred tax assets and liabilities of a change in tax rates be recognized in the period the tax rate change was enacted. Due to the complexities involved in accounting for the recently enacted Tax Act, the U.S. Securities and Exchange Commission’s Staff Accounting Bulletin (“SAB”) 118 requires that the Company include in its financial statements the reasonable estimate of the impact of the Tax Act on earnings to the extent such estimate has been determined.

Pursuant to the SAB118, the Company is allowed a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. The final impact on the Company from the Tax Act’s transition tax legislation may differ from the aforementioned estimates due to the complexity of calculating and supporting with primary evidence such U.S. tax attributes such as accumulated foreign earnings and profits, foreign tax paid, and other tax components involved in foreign tax credit calculations for prior years back to 1998. Such differences could be material, due to, among other things, changes in interpretations of the Tax Act, future legislative action to address questions that arise because of the Tax Act, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the Company has utilized to calculate the transition tax’s reasonable estimate. The Company will continue to evaluate the impact of the U.S. Tax Act and will record any resulting tax adjustments during 2018.

Table of Contents**Note 8 – Commitments and Contingencies***Operating Leases*

As of *September 30, 2018*, the Company leases facilities and certain equipment under lease commitments that expire through *August 2022*. Future minimum lease commitments for these operating lease commitments are as follows (in thousands):

Twelve Months Ending September 30,

2019	\$ 632
2020	611
2021	406
2022	129
2023	-
Thereafter	-
Total	\$ 1,778

Rent expense under operating leases, including month-to-month leases, for the *three and nine* months ended *September 30, 2018*, were approximately \$210,000 and \$647,000, respectively. Rent expense under operating leases, including month-to-month leases, for the *three and nine* months ended *September 30, 2017*, were approximately \$185,000 and \$589,000, respectively.

*Self-Insurance*

In *June 2015*, the Company became self-insured under its Employee Group Medical Plan, and currently is responsible to pay the *first \$50,000* in medical costs per individual participant for claims incurred in the calendar year up to a maximum of approximately \$1.8 million per year in the aggregate based on enrollment. The Company had an accrued liability of approximately \$100,000 and \$102,000 as of *September 30, 2018* and *December 31, 2017*, respectively, for insurance claims that it anticipates paying in the future related to claims that occurred prior to *September 30, 2018*.

Effective *April 1, 2015*, the Company had entered into a workers' compensation and employer's liability insurance policy with a term through *March 31, 2018*. Under the terms of the policy, the Company was required to pay

premiums in addition to a portion of the cost of any claims made by our employees, up to a maximum of approximately \$1.8 million over the term of the policy (an amount that was variable with changes in annualized compensation amounts). As of *September 30, 2018*, a former employee of ours had an open claim relating to injuries sustained while in the course of employment, and the projected maximum cost of the policy as determined by the insurance carrier included estimated claim costs that have *not* yet been paid or incurred in connection with the claim. During the year ended *December 31, 2017*, our insurance carrier formally denied the workers' compensation claim and is moving to close the claim entirely. Per the terms of our insurance policy, through *September 30, 2018*, we had paid in approximately \$1.8 million of the projected maximum plan cost of \$1.8 million, and had recorded approximately \$1.6 million as expense over the term of the policy. During the three months ended *September 30, 2018*, additional claims prior to *March 31, 2018* were processed pursuant to the agreement, and we recorded approximately \$267,000 in additional costs under the plan, reducing the balance of the long-term asset. We recorded the remaining approximately \$189,000 in payments made under the policy as a long-term asset, which we expect will either be recorded as expense in future periods, or refunded to us by the insurance carrier, depending on the outcome of the claim and the final cost of any additional open claims incurred under the policy. As of *September 30, 2018*, we believe we have paid all amounts contractually due under the policy. Effective *April 1, 2018*, we entered into a new workers' compensation policy with a fixed premium amount determined annually, and therefore are *no* longer partially self-insured for workers' compensation and employer's liability.

Table of Contents

*Litigation*

The Company and its subsidiary Heat Waves are defendants in a stayed civil lawsuit in federal court in Colorado, Civil Action No. 1:15-cv-00983-RBJ (“Colorado Case”), that alleges that Enservco and Heat Waves, in offering and selling frac water heating services, infringed and induced others to infringe two patents owned by Heat-On-The-Fly, LLC (“HOTF”). The complaint relates to only a portion of the frac water heating services provided by Heat Waves. The Colorado Case has been stayed pending a final resolution of an appeal by HOTF to the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) of a North Dakota Court’s ruling that the primary patent (“the ‘993 Patent”) in the Colorado Case was invalid. Neither Enservco nor Heat Waves is a party to the North Dakota Case, which involves other energy companies.

In March of 2015, the North Dakota Court determined that the ‘993 Patent was invalid. The same Court also later found that the ‘993 Patent was unenforceable due to inequitable conduct by the Patent Owner and/or the inventor. As noted above, the Patent Owner appealed these judgments to the Federal Circuit as well as several other adverse judgments and orders by the North Dakota Court. On May 4, 2018, among other things, the Federal Circuit, affirmed the North Dakota Court’s finding of inequitable conduct with regard to the ‘993 Patent; agreed with the North Dakota jury’s finding that HOTF acted in bad faith in connection with a tortious interference claim; set aside the North Dakota Court’s denial of the Energy Companies’ attorneys’ fees; and chose not to address the North Dakota Court’s finding of invalidity of the ‘993 Patent. The Federal Circuit sent the case back to the North Dakota Court to determine the issue of the energy companies’ attorneys’ fees. However, in July of 2018, HOTF requested that the Federal Circuit reconsider its May 4, 2018 decision. but the Federal Circuit Court denied HOTF's request for a rehearing. Should HOTF not petition the U.S. Supreme Court, the appeal process will be concluded and the Colorado Case will be re-opened and may resume.

In September 2016 and February 2017, HOTF was issued two additional patents, both of which could be asserted against Enservco and/or Heat Waves. Management believes that final findings of invalidity and/or unenforceability of the ‘993 Patent based on inequitable conduct could serve as a basis to affect the validity and/or enforceability of each of HOTF’s patents. If all of these Patents are ultimately held to be invalid and/or unenforceable, the Colorado Case would become moot.

To the extent that Enservco and Heat Waves are unsuccessful in their defense of the Colorado Case, they could be liable for enhanced damages/attorneys’ fees (both of which may be significant) and Heat Waves could possibly be enjoined from using any technology that is determined to be infringing. Either result could negatively impact Heat Waves’ business and operations. At this time, the Company is unable to predict the outcome of this case, and accordingly has not recorded an accrual for any potential loss.

**Note 9 – Stockholders’ Equity**

## *Warrants*

In *June 2016*, the Company granted a principal of the Company's investor relations firm warrants to acquire *30,000* shares of the Company's common stock in connection with a reduction of the firm's ongoing monthly cash service fees. The warrants had a grant-date fair value of *\$0.36* per share and vested over a *one-year* period, *15,000* on *December 21, 2016* and *15,000* on *June 21, 2017*. As of *September 30, 2018*, all of these warrants remain outstanding and are exercisable until *June 21, 2021* at *\$0.70* per share.

In *June 2017*, in connection with a subordinated loan agreement, the Company granted Cross River *two five-year* warrants to buy an aggregate total of *1,612,902* shares of the Company's common stock at an exercise price of *\$0.31* per share, the average closing price of the Company's common stock for the *20-day* period ended *May 11, 2017*. The warrants had a grant-date fair value of *\$0.19* per share and vested in full on *June 28, 2017*. These warrants were accounted for as a liability in the accompanying balance sheet as of *December 31, 2017*. On *June 29, 2018* Cross River exercised both warrants and acquired *1,612,902* shares of our *\$0.005* par value common stock. Proceeds from the exercise of the warrants in the amount of *\$500,000* were used to reduce the subordinated debt balance.

Table of Contents

A summary of warrant activity for the nine months ended *September 30, 2018* is as follows (amounts in thousands):

Warrants	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	1,642,902	\$ 0.32	4.5	\$ 539
Issued	-	-	-	-
Exercised	(1,612,902)	0.31	-	-
Forfeited/Cancelled	-	-	-	-
Outstanding at September 30, 2018	30,000	\$ 0.70	3.0	6
Exercisable at September 30, 2018	30,000	\$ 0.70	3.0	6

*Stock Issued for Services*

During the *three* and nine months ended *September 30, 2018* and *2017*, respectively, the Company did *not* issue any shares of common stock as compensation for services provided to the Company.

**Note 10 – Stock Options and Restricted Stock***Stock Options*

On *July 27, 2010*, the Company's Board of Directors adopted the *2010* Stock Incentive Plan (the "*2010* Plan"). The aggregate number of shares of common stock that could be granted under the *2010* Plan was reset at the beginning of each year based on *15%* of the number of shares of common stock then outstanding. As such, on *January 1, 2016* the number of shares of common stock available under the *2010* Plan was reset to *5,719,069* shares based upon *38,127,129* shares outstanding on that date. Options were typically granted with an exercise price equal to the estimated fair value of the Company's common stock at the date of grant with a vesting schedule of *one* to *three* years and a contractual term of *5* years. As discussed below, the *2010* Plan has been replaced by a new stock option plan and *no* additional stock option grants will be granted under the *2010* Plan. As of *September 30, 2018*, there were options to purchase *866,166* shares outstanding under the *2010* Plan.

On *July 18, 2016*, the Board of Directors unanimously approved the adoption of the Enservco Corporation *2016* Stock Incentive Plan (the “*2016 Plan*”), which was approved by the stockholders on *September 29, 2016*. The aggregate number of shares of common stock that *may* be granted under the *2016 Plan* is *8,000,000* shares plus authorized and unissued shares from the *2010 Plan* totaling *2,391,711* for a total reserve of *10,391,711* shares. As of *September 30, 2018*, there were options to purchase *1,759,933* shares outstanding under the *2016 Plan*.

We have *not* granted any stock options during the three and nine months ended *September 30, 2018*. During the nine months ended *September 30, 2017*, the Company granted options to acquire *2,971,600* shares of common stock.

Table of Contents

During the nine months ended *September 30, 2018* employees and former employees of the Company exercised *1,230,002* options to purchase shares of Company common stock on a cashless basis resulting in the issuance of *663,938* shares. During the nine months ended *September 30, 2017*, *no* options were exercised. The following is a summary of stock option activity for all equity plans for the *three* months ended *September 30, 2018* (amounts in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	4,814,434	\$ 0.71	3.46	\$ 1,007
Granted	-	-		
Exercised	(1,230,002)	-		-
Forfeited or Expired	(958,333 )	0.73		-
Outstanding at September 30, 2018	2,626,099	\$ 0.83	2.81	\$ 834
Vested or Expected to Vest at September 30, 2018	1,951,533	\$ 1.00	2.54	536
Exercisable at September 30, 2018	1,951,533	\$ 1.00	2.54	\$ 536

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the estimated fair value of the Company's common stock on *September 30, 2018*, and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had they exercised their options on *September 30, 2018*.

During the *three and nine* months ended *September 30, 2018*, the Company recognized stock-based compensation costs for stock options of approximately \$54,000 and \$188,000, respectively, in sales, general, and administrative expenses. The Company currently expects all outstanding options to vest. Compensation cost is revised if subsequent information indicates that the actual number of options vested due to service is likely to differ from previous estimates. During the three and nine months ended *September 30, 2017*, the Company recognized stock-based compensation costs for stock options of approximately \$126,000 and \$572,000, respectively, in general and administrative expenses.

A summary of the status of non-vested shares underlying the options are presented below:



	<b>Number of Shares</b>	<b>Weighted-Average Grant- Date Fair Value</b>
Non-vested at December 31, 2017	2,531,599	\$ 0.24
Granted	-	-
Vested	(1,285,366)	0.27
Forfeited	(571,667 )	0.21
Non-vested at September 30, 2018	674,566	\$ 0.21

As of September 30, 2018, there was approximately \$150,000 of total unrecognized compensation costs related to non-vested shares under the Company's stock option plans which will be recognized over the remaining weighted-average period of 0.96 years.

### *Restricted Stock*

Restricted shares issued pursuant to restricted stock awards under the 2016 Stock Plan are restricted as to sale or disposition. These restrictions lapse periodically generally over a period of three years. Restrictions may also lapse for early retirement and other conditions in accordance with our established policies. Upon termination of employment, shares on which restrictions have not lapsed must be returned to us, resulting in restricted stock forfeitures. The fair market value on the date of the grant of the stock with a service condition is amortized and charged to income on a straight-line basis over the requisite service period for the entire award. The fair market value on the date of the grant of the stock with a performance condition shall be accrued and recognized when it becomes probable that the performance condition will be achieved. Restricted shares that contain a market condition are amortized and charged over the life of the award.

On June 14, 2018, the Company's Board of Director's granted 990,000 shares of restricted stock to the Company's employees. The awards had an aggregate grant-date fair value of approximately \$1.1 million.

A summary of the restricted stock activity is presented below:

	<b>Number of Shares</b>	<b>Weighted-Average Grant- Date Fair Value</b>
Restricted shares at December 31, 2017	-	\$ -
Granted	997,500	0.91
Vested	-	-

Edgar Filing: Enservco Corp - Form 10-Q

Forfeited	(127,500)	0.72
Restricted shares at September 30, 2018	870,000	\$ 0.95

During the three and nine months ended September 30, 2018, the Company recognized stock-based compensation costs for restricted stock of approximately \$49,000 and \$103,000, respectively, in sales, general, and administrative expenses. Compensation cost is revised if subsequent information indicates that the actual number of restricted stock vested due to service is likely to differ from previous estimates.

Table of Contents

**Note 11- Segment Reporting**

Enservco's reportable business segments are Well Enhancement Services, Water Transfer Services, and Water Hauling Services. These segments have been selected based on changes in management's resource allocation and performance assessment in making decisions regarding the Company.

The following is a description of the segments.

*Well Enhancement Services:* This segment utilizes a fleet of frac water heating units, hot oil trucks and acidizing units to provide well enhancement and completion services to the domestic oil and gas industry. These services include frac water heating, hot oil services, pressure testing, and acidizing services.

*Water Transfer Services:* This segment utilizes high and low volume pumps, lay flat hose, aluminum pipe and manifolds and related equipment to move fresh and/or recycled water from a water source such as a pond, lake, river, stream, or water storage facility to frac tanks at drilling locations to be used in connection with well completion activities.

*Water Hauling Services:* This segment utilizes a fleet of trucks and related assets, including specialized tank trucks, vacuum trailers, storage tanks, and disposal facilities to provide various water hauling services. These services are primarily provided by Dillco in the Hugoton Field in Kansas.

Unallocated and other includes general overhead expenses and assets associated with managing all reportable operating segments which have *not* been allocated to a specific segment.

The following tables set forth certain financial information with respect to Enservco's reportable segments (in thousands):

<b>Well</b>	<b>Water</b>	<b>Water</b>	<b>Unallocated</b>	<b>Total</b>
<b>Enhancement</b>	<b>Transfer</b>	<b>Hauling</b>	<b>&amp;</b>	

Edgar Filing: Enservco Corp - Form 10-Q

		Services		Other	
<b>Three Months Ended September 30, 2018:</b>					
Revenues	\$ 3,200	\$ 634	\$ 638	\$ -	\$4,472
Cost of Revenue	3,946	650	733	141	5,470
Segment Profit (Loss)	\$ (746	) \$ (16	) \$ (95	) \$ (141	) \$(998 )
Depreciation and Amortization	\$ 1,131	\$ 283	\$ 64	\$ 5	\$1,483
Capital Expenditures (Excluding Acquisitions)	\$ 130	\$ 30	\$ -	\$ -	\$160
<b>Three Months Ended September 30, 2017:</b>					
Revenues	\$ 4,033	\$ 798	\$ 911	\$ -	\$5,742
Cost of Revenue	4,162	822	801	216	\$6,001
Segment Profit (Loss)	\$ (129	) \$ (24	) \$ 110	\$ (216	) \$(259 )
Depreciation and Amortization	\$ 1,193	\$ 253	\$ 165	\$ 7	\$1,618
Capital Expenditures (Excluding Acquisitions)	\$ 274	\$ 2	\$ -	\$ -	\$276

(1) Identifiable assets is calculated by summing the balances of accounts receivable, net; inventories; property and equipment, net; and other assets.

Table of Contents

	Well Enhancement	Water Transfer Services	Water Hauling	Unallocated & Other	Total
<b>Nine Months Ended September 30, 2018:</b>					
Revenues	\$ 29,490	\$ 2,558	\$ 2,337	\$ -	\$34,385
Cost of Revenue	22,937	2,586	2,634	467	28,624
Segment Profit (Loss)	\$ 6,553	\$ (28 )	\$ (297 )	\$ (467 )	\$5,761
Depreciation and Amortization	\$ 3,586	\$ 835	\$ 231	\$ 17	\$4,669
Capital Expenditures (Excluding Acquisitions)	\$ 916	\$ 677	\$ 29	\$ 8	\$1,630
Identifiable assets <sup>(1)</sup>	\$ 25,808	\$ 3,122	\$ 1,213	\$ 536	\$30,679
<b>Nine Months Ended September 30, 2017:</b>					
Revenues	\$ 21,836	\$ 1,856	\$ 2,677	\$ 254	\$26,623
Cost of Revenue	16,936	2,114	2,906	857	\$22,813
Segment Profit (Loss)	\$ 4,900	\$ (258 )	\$ (229 )	\$ (603 )	\$3,810
Depreciation and Amortization	\$ 3,617	\$ 731	\$ 498	\$ 23	\$4,869
Capital Expenditures (Excluding Acquisitions)	\$ 678	\$ 457	\$ 106	\$ 6	\$1,247
Identifiable assets <sup>(1)</sup>	\$ 30,486	\$ 3,768	\$ 1,726	\$ 516	\$36,496

(1) Identifiable assets is calculated by summing the balances of accounts receivable, net; inventories; property and equipment, net; and other assets.

The following table reconciles the segment profits reported above to the income from operations reported in the consolidated statements of operations (in thousands):

	<b>Three Months Ended September 30, 2018    2017</b>		<b>Nine Months Ended September 30, 2018    2017</b>	
Segment profit	\$ (998 )	\$ (259 )	\$5,761	\$3,810
Sales, general, and administrative expenses	(1,192)	(1,139)	(3,803)	(3,423)
Patent litigation and defense costs	(2 )	(29 )	(77 )	(96 )
Severance and transition costs	-	(16 )	(633 )	(784 )
Depreciation and amortization	(1,483)	(1,618)	(4,669)	(4,869)
Income (loss) from Operations	\$ (3,675)	\$ (3,061)	\$ (3,421)	\$ (5,362)



Table of Contents*Geographic Areas*

The Company operates solely in the United States, in what it believes are *three* geographically diverse regions. The following table sets forth revenue from operations for the Company's *three* geographic regions during the *three* and *nine* months ended *September 30, 2018* and *2017* (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017		2018	2017
BY GEOGRAPHY				
Rocky Mountain Region (1)	\$2,049	\$2,797	\$20,230	\$18,011
Central USA Region (2)	2,236	2,665	11,012	7,935
Eastern USA Region (3)	187	280	3,143	677
Total Revenues	\$4,472	\$5,742	\$34,385	\$26,623

Notes to tables:

Includes the D-J Basin/Niobrara field (northeastern Colorado and southeastern Wyoming), the Powder River and (1) Green River Basins (northeastern and southwestern Wyoming), the Bakken area (western North Dakota and eastern Montana). Heat Waves and HWWM operate in this region.

Includes the Eagle Ford Shale and Austin Chalk (southern Texas) and Mississippi Lime and Hugoton Field (2) (southwestern Kansas, north central Oklahoma, and the Texas panhandle). Heat Waves, Dillco, and HWWM operate in this region

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

**Note 12- Subsequent Events***Acquisition of Adler Hot Oil Service, LLC*

On October 26, 2018, Enservco Corporation entered into a Membership Interest Purchase Agreement (the "Agreement") with Adler Hot Oil Holdings, LLC, a Delaware limited liability company (the "Seller"), pursuant to which Enservco acquired all of the outstanding membership interests of Adler Hot Oil Service, LLC, a Delaware limited liability company ("Adler") for an aggregate purchase price of \$12.5 million, plus approximately \$500,000 in working capital adjustments (the "Transaction"). Certain former members of Adler are also parties to the Agreement. Adler is a

national provider of frac water heating and hot oiling services, whose assets consist primarily of vehicles and equipment, with a complementary base of customers in several oil and gas producing basins where Enservco operates.

The consideration paid or to be paid by Enservco under the Agreement includes: (i) \$3.7 million in cash paid to or for the benefit of the Seller at the closing; (ii) a subordinated promissory note issued to the Seller in the principal amount of \$4.8 million, plus interest accrued thereon (the “Seller Subordinated Note”), as further discussed below; (iii) retirement by Enservco of \$2.5 million in indebtedness of Adler; (iv) an earn-out payment of up to \$1.0 million in cash payable to the Seller, the actual amount of which is subject to Enservco’s satisfaction of certain EBITDA-related performance conditions during 2019; and (v) \$1.0 million in cash held by Enservco and payable to the Seller on the 18 month anniversary of October 26, 2018, subject to offset by Enservco for any indemnification obligations owed by the Seller or certain former members of Adler under the Agreement.



Table of Contents

The following represents preliminary pro forma Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017.

	<b>Historical Enservco For the three months ended September 30, 2018</b>	<b>Historical Adler For the three months ended September 30, 2018</b>	<b>Adler acquisition related Pro Forma adjustment</b>	<b>Pro Forma</b>
Revenues				
Well enhancement services	\$ 3,200	\$ 390	-	\$3,590
Water transfer services	634	-	-	634
Water hauling services	638	-	-	638
Other	-	-	-	-
Total revenues	4,472	390		4,862
Expenses				
Well enhancement services	3,946	937	28	(a) 4,911
Water transfer services	650	-	-	650
Water hauling services	733	-	-	733
Functional support and other	141	-	-	141
Sales, general, and administrative expenses	1,192	785	(53)	(b) 1,924
Patent litigation and defense costs	2	-	-	2
Severance and transition costs	-	-	-	-
Depreciation and amortization	1,483	389	27	(c) 1,899
Total operating expenses	8,147	2,111		10,260
(Loss) Income from Operations	(3,675 )	(1,721 )		(5,398 )
Other (Expense) Income				
Interest expense	(471 )	(766 )	723	(d) (514 )
Other income	38	-	-	38
Total other expense	(433 )	(766 )		(476 )
Loss Before Tax Expense	(4,108 )	(2,487 )		(5,874 )
Income Tax (Expense) Benefit	-	-	-	-
Net Loss	\$ (4,108 )	\$ (2,487 )		\$ (5,874 )
Earnings (loss) per Common Share - Basic	\$ (0.08 )			\$ (0.11 )
Earnings (loss) per Common Share – Diluted	\$ (0.08 )			\$ (0.11 )

Edgar Filing: Enservco Corp - Form 10-Q

Basic weighted average number of common shares outstanding	54,309	54,309
Add: Dilutive shares	-	-
Diluted weighted average number of common shares outstanding	54,309	54,309

(a) Reflects the reclassification of certain amounts from Sales, general, and administrative expenses to Well enhancement services expense.

(b) In addition to reclassification discussed in (a), there is also an adjustment related to certain professional fees which will no longer be incurred.

(c) Reflects additional estimated depreciation expense related to the acquired property and equipment.

(d) Reflects reduced interest expense based on the use of the New Credit Facility.

Table of Contents

	Historical Enservco For the three months ended September 30, 2017	Historical Adler For the three months ended September 30, 2017	Adler acquisition related Pro Forma adjustment	Pro Forma
Revenues				
Well enhancement services	\$ 4,033	\$ 1,214	\$ -	\$5,247
Water transfer services	798	-	-	798
Water hauling services	911	-	-	911
Other	-	-	-	-
Total revenues	5,742	1,214		6,956
Expenses				
Well enhancement services	4,162	1,130	26	(a) 5,318
Water transfer services	822	-	-	822
Water hauling services	801	-	-	801
Functional support and other	216	-	-	216
Sales, general, and administrative expenses	1,139	732	(39)	(b) 1,832
Patent litigation and defense costs	29	-	-	29
Severance and transition costs	16	-	-	16
Depreciation and amortization	1,618	437	27	(c) 2,082
Total operating expenses	8,803	2,299		11,116
(Loss) from Operations	(3,061 )	(1,085 )		(4,160 )
Other Expense				
Interest expense	(599 )	(667 )	577	(d) (689 )
Gain on disposals	-	-	-	-
Other expense	(264 )	-	-	(264 )
Total other expense	(863 )	(667 )		(953 )
Loss Before Tax Expense	(3,924 )	(1,752 )		(5,113 )
Income Tax (Expense) Benefit	1,415	-	632	(e) 2,047
Net Loss	\$ (2,509 )	\$ (1,752 )		\$ (3,066 )
Earnings (loss) per Common Share - Basic	\$ (0.05 )			\$ (0.06 )
Earnings (loss) per Common Share – Diluted	\$ (0.05 )			\$ (0.06 )
Basic weighted average number of common shares outstanding	51,068			51,068
Add: Dilutive shares	-			-

Diluted weighted average number of common shares outstanding	51,068	51,068
--	--------	--------

(a) Reflects the reclassification of certain amounts from Sales, general, and administrative expenses to Well enhancement services expense.

(b) In addition to reclassification discussed in (a), there is also an adjustment related to certain professional fees which will no longer be incurred.

(c) Reflects additional estimated depreciation expense related to the acquired property and equipment.

(d) Reflects reduced interest expense based on the use of the New Credit Facility.

(e) Reflects tax benefit based on Enservco historical rate.

Table of Contents

	<b>Historical Enservco For the nine months ended September 30, 2018</b>	<b>Historical Adler For the nine months ended September 30, 2018</b>	<b>Adler acquisition related Pro Forma adjustment</b>	<b>Pro Forma</b>
<b>Revenues</b>				
Well enhancement services	\$ 29,490	\$ 11,217	-	\$40,707
Water transfer services	2,558	-	-	2,558
Water hauling services	2,337	-	-	2,337
Other	-	-	-	-
Total revenues	34,385	11,217		45,602
<b>Expenses</b>				
Well enhancement services	22,937	7,430	146	(a) 30,513
Water transfer services	2,586	-	-	2,586
Water hauling services	2,634	-	-	2,634
Functional support and other	467	-	-	467
Sales, general, and administrative expenses	3,803	2,835	(228)	(b) 6,410
Patent litigation and defense costs	77	-	-	77
Severance and transition costs	633	-	-	633
Depreciation and amortization	4,669	1,167	82	(c) 5,918
Total operating expenses	37,806	11,432		49,238
Loss from Operations	(3,421)	(215)		(3,636)
<b>Other (Expense) Income</b>				
Interest expense	(1,482)	(2,301)	2,118	(d) (1,665)
Gain on disposals	53	-	-	53
Other expense	(467)	-	-	(467)
Total other expense	(1,896)	(2,301)		(2,079)
Loss Before Tax Expense	(5,317)	(2,516)		(5,715)
Income Tax Expense	(32)	-	-	(32)
Net Loss	\$ (5,349)	\$ (2,516)		\$ (5,747)
Earnings (loss) per Common Share - Basic	\$ (0.10)			\$ (0.11)
Earnings (loss) per Common Share – Diluted	\$ (0.10)			\$ (0.11)
Basic weighted average number of common shares outstanding	52,389			52,389
Add: Dilutive shares	-			-
Diluted weighted average number of common shares outstanding	52,389			52,389

- (a) Reflects the reclassification of certain amounts from Sales, general, and administrative expenses to Well enhancement services expense.
- (b) In addition to reclassification discussed in (a), there is also an adjustment related to certain professional fees which will no longer be incurred.
- (c) Reflects additional estimated depreciation expense related to the acquired property and equipment.
- (d) Reflects reduced interest expense based on the use of the New Credit Facility.

Table of Contents

	<b>Historical Enservco For the nine months ended September 30, 2017</b>	<b>Historical Adler For the nine months ended September 30, 2017</b>	<b>Adler acquisition related Pro Forma adjustment</b>	<b>Pro Forma</b>
<b>Revenues</b>				
Well enhancement services	\$ 21,836	\$ 10,507	-	\$ 32,343
Water transfer services	1,856	-	-	1,856
Water hauling services	2,677	-	-	2,677
Other	254	-	-	254
Total revenues	26,623	10,507		37,130
<b>Expenses</b>				
Well enhancement services	16,936	6,349	137	(a) 23,422
Water transfer services	2,114	-	-	2,114
Water hauling services	2,906	-	-	2,906
Functional support and other	857	-	-	857
Sales, general, and administrative expenses	3,423	2,476	(186)	(b) 5,713
Patent litigation and defense costs	96	-	-	96
Severance and transition costs	784	-	-	784
Depreciation and amortization	4,869	1,312	82	(c) 6,263
Total operating expenses	31,985	10,137		42,155
(Loss) Income from Operations	(5,362)	) 370		(5,025)
<b>Other Expense</b>				
Interest expense	(1,809)	) (1,961)	) 1,654	(d) (2,116)
Other expense	(222)	) (2)	) -	(224)
Total other expense	(2,031)	) (1,963)	)	(2,340)
Loss Before Tax Expense	(7,393)	) (1,593)	)	(7,365)
Income Tax Benefit	2,407	-	518	(e) 2,928
Net Loss	\$ (4,986)	)\$ (1,593)	)	\$ (4,440)
Earnings (loss) per Common Share - Basic	\$ (0.10)	)		\$ (0.11)
Earnings (loss) per Common Share – Diluted	\$ (0.10)	)		\$ (0.11)
Basic weighted average number of common shares outstanding	51,068			51,068
Add: Dilutive shares	-			-
Diluted weighted average number of common shares outstanding	51,068			51,068

(a) Reflects the reclassification of certain amounts from Sales, general, and administrative expenses to Well enhancement services expense.

(b) In addition to reclassification discussed in (a), there is also an adjustment related to certain professional fees which will no longer be incurred.

(c) Reflects additional estimated depreciation expense related to the acquired property and equipment.

(d) Reflects reduced interest expense based on the use of the New Credit Facility.

(e) Reflects tax benefit based on Enservco historical rate.

27

---



## Table of Contents

### *Subordinated Note*

In connection with the Transaction and pursuant to the terms of the Agreement, on October 26, 2018, Enservco issued to the Seller the Seller Subordinated Note in the original principal amount of \$4.8 million, and unpaid amounts thereunder bear simple interest at a rate of 8% per annum (or 11% while any default is continuing). Enservco is required to make principal payments on November 30, 2018 of \$800,000, on February 28, 2019 of \$200,000, and on the final maturity date of the Seller Subordinated Note of March 31, 2019 of all remaining outstanding principal and interest. Enservco may prepay the Seller Subordinated Note in whole or in part, without penalty or premium, at any time prior to its maturity date. The Seller Subordinated Note is guaranteed by Enservco's subsidiaries and secured by a junior security interest in substantially all assets of Enservco and its subsidiaries. The Seller Subordinated Note is subject to a subordination agreement by and among Enservco, the Seller, and East West Bank.

### *Second Amendment to Loan and Security Agreement and Consent*

In connection with the Transaction, on October 26, 2018, Enservco and East West Bank entered into a Second Amendment to Loan and Security Agreement and Consent (the "Second Amendment to LSA"), which amended the Loan and Security Agreement dated August 10, 2017 by and between Enservco and East West Bank (the "Loan Agreement"). Pursuant to the Second Amendment to LSA, East West Bank consented to the Transaction and increased the maximum borrowing limit of the senior secured revolving credit facility provided to Enservco under the Loan Agreement to \$37.0 million. Proceeds of \$6.2 million from the increased senior secured revolving credit facility were used in the Transaction to make the cash payments at closing and retire the indebtedness of Adler. In connection with the Second Amendment to LSA the capital expenditure limitation contained within the Loan Agreement was increased to \$3.0 million from \$2.5 million.

On October 26, 2018, in connection with the Second Amendment to LSA, Adler entered into a Joinder Agreement, pursuant to which Adler was joined as a party to the Loan Agreement.

### *Facilities Closure*

On October 29, 2018, Enservco announced that it would be selling or closing the Dillco water hauling business, its associated facilities, and real estate. Effective November 1, 2018, the Dillco water hauling business ceased operations for customers.



Table of Contents

**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 and nine months ended September 30, 2018 and 2017, and our financial condition, liquidity and capital resources as of September 30, 2018, and December 31, 2017. 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, 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,” and similar 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:

Our capital requirements and the uncertainty of being able to obtain additional funding on terms acceptable to us;  
The financial constraints imposed as a result of our indebtedness, including restrictions imposed on us under the terms of our credit facility agreement and our need to generate sufficient cash flows to repay our debt obligations;  
The volatility of domestic and international oil and natural gas prices and the resulting impact on production and drilling activity, and the effect that lower prices may have on our customers’ demand for our services, the result of which may adversely impact our revenues and financial performance;  
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 to our costs of doing business;  
Our history of losses and working capital deficits which, at times, were significant;  
Adverse weather and environmental conditions;  
Our reliance on a limited number of customers;  
Our ability to retain key members of our senior management and key technical employees;  
The potential 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 risks associated with the use of intellectual property that may be claimed by others and actual or potential litigation related thereto;

The effect of unseasonably warm weather during winter months; and

The effect of further sales or issuances of our common stock and the price and volume volatility of our common stock.

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. 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, 2017. 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.

Table of Contents

**OVERVIEW**

The Company, through its subsidiaries, provides the following services to the domestic onshore oil and natural gas industry – (i) frac water heating, hot oiling and acidizing (well enhancement services); (ii) water transfer and water treatment services (water transfer services); and (iii) water hauling, fluid disposal, frac tank rental (water hauling services). The Company owns and operates through its subsidiaries a fleet of more than 630 specialized trucks, trailers, frac tanks and other well-site related equipment and serves customers in several major domestic oil and gas areas including the DJ Basin/Niobrara area in Colorado, the Bakken area in North Dakota, the Marcellus and Utica Shale areas in Pennsylvania and Ohio, the Jonah area, Green River and Powder River Basins in Wyoming, the Eagle Ford Shale and Austin Chalk in Texas and the Mississippi Lime, Scoop/Stack, and Hugoton areas in Kansas and Oklahoma.

**RESULTS OF OPERATIONS**

*Executive Summary*

The nine months ended September 30, 2018 featured fairly stable commodity prices and increased demand for our services compared to the like period in 2017. Overall demand for our services increased due to improved industry conditions in several of our heating markets compared to the same period in 2017. In addition, we increased services for our five largest customers and expanded our frac water heating business. Factors for our increased services include fairly stable crude oil prices which led to increased activity by our customers. Despite the increase in revenue, we experienced various increases in costs (in certain cases, not related to the increase in activity) that negatively impacted our profitability. Subsequent to September 30, 2018, we completed the acquisition of Adler Hot Oil Service, LLC ("Adler"), which we believe will solidify our position among our competitors for our primary service offerings, and increase the scope and breadth of our service offerings for leading exploration and production companies operating in the basins we serve.

Revenues for the nine months ended September 30, 2018 increased approximately \$7.8 million, or 29%, from the comparable period last year due to a 35% increase in our core well enhancement revenue. Higher frac water heating revenues in our Rocky Mountain region, improved demand for hot oil services in the Bakken, and continued expansion of hot oiling and acidizing services in the Eagle Ford all contributed to the increase in well enhancement revenues. Water transfer revenues for the nine months ended September 30, 2018 were approximately \$702,000, or 38% higher than the comparable period last year due to continued expansion of services.

For the nine-month period ended September 30, 2018, segment profits increased by approximately \$2.0 million, due primarily to an increase in revenue from our core well enhancement services. Sales, general & administrative

expenses increased by approximately \$380,000 for the nine months ended September 30, 2018, compared to the same period in 2017, due primarily to an increase in personnel costs at the corporate level and additional costs related to the business development team. Interest expense for the nine months ended September 30, 2018 decreased approximately \$327,000 from the first nine months of 2017 primarily due to accelerated amortization of deferred financing costs in the nine months ended September 30, 2017 which in turn was due to the accelerated maturity date on our previous revolving credit facility.

For the nine months ended September 30, 2018, the Company recognized net loss of approximately \$5.3 million or (\$0.10) per share compared to a net loss of approximately \$5.0 million or (\$0.10) per share in 2017 primarily due to the factors above.

Adjusted EBITDA for the nine months ended September 30, 2018 was approximately \$2.3 million, compared to approximately \$959,000 for the comparable period in 2017. See the section titled *Adjusted EBITDA\** within this Item for definition of Adjusted EBITDA.

## Industry Overview

During 2018, improved commodity prices and an increase in active rigs in North America resulted in an increase in production and completion activities by our customers, which led to an increase in demand for our services. We believe current activity levels should support continued modest improvement in both metrics. The Company has reacted to increases in demand by allocating resources to our most active customers and basins, as we continue to focus on increasing utilization levels and optimizing the deployment of our equipment and workforce, and maintaining a high service quality and safety record. The market recovery has also allowed us to compete on the basis of the quality and breadth of our service offerings.

Crude oil prices and the North American rig count have increased since the low points in early 2016. The United States rig count bottomed out at approximately 400 in the spring of 2016 and increased to approximately 1,054 as of September 30, 2018, which resulted in increased operations and revenues for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017.

Table of Contents

**Segment Overview**

Enservco's reportable business segments are Well Enhancement Services, Water Transfer Services, and Water Hauling Services. These segments have been selected based on management's resource allocations and performance assessment in making decisions regarding Enservco.

The following is a description of the segments:

**Well Enhancement Services:** This segment utilizes a fleet of frac water heating units, hot oil trucks and acidizing units to provide well enhancement and completion services to the domestic oil and gas industry. These services include frac water heating, hot oil services, pressure testing, and acidizing services.

**Water Transfer Services:** This segment utilizes high and low volume pumps, lay flat hose, aluminum pipe and manifolds and related equipment to move fresh and/or recycled water from a water source such as a pond, lake, river, stream, or water storage facility to frac tanks at drilling locations to be used in connection with well completion activities.

**Water Hauling Services:** This segment utilizes a fleet of trucks and related assets, including specialized tank trucks, vacuum trailers, storage tanks, and disposal facilities to provide various water hauling services. These services are primarily provided by Dillco in the Hugoton area in Kansas and Oklahoma. On October 29, 2018, Enservco announced that it would be selling or closing the Dillco water hauling business, its associated facilities, and real estate.

***Segment Results:***

The following tables set forth revenue from operations and segment profits for the Company's business segments for the three and nine months ended September 30, 2018 and 2017 (in thousands):

<b>Three Months</b>		<b>Nine Months</b>	
<b>Ended</b>		<b>Ended</b>	
<b>September 30,</b>		<b>September 30,</b>	
<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>

**REVENUES:**

Well enhancement services	\$3,200	\$4,033	\$29,490	\$21,836
Water transfer services	634	798	2,558	1,856
Water hauling services	638	911	2,337	2,677
Unallocated and other	-	-	-	254
<b>Total Revenues</b>	<b>\$4,472</b>	<b>\$5,742</b>	<b>\$34,385</b>	<b>\$26,623</b>



Table of Contents

	<b>Three Months Ended September 30, 2018</b>		<b>Nine Months Ended September 30, 2018</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>SEGMENT PROFIT:</b>				
Well enhancement services	\$(746)	\$(129)	\$6,553	\$4,900
Water transfer services	(16 )	(24 )	(28 )	(258 )
Water hauling services	(95 )	110	(297 )	(229 )
Unallocated and other	(141)	(216)	(467 )	(603 )
<b>Total Segment Profit</b>	<b>\$(998)</b>	<b>\$(259)</b>	<b>\$5,761</b>	<b>\$3,810</b>

Well Enhancement Services

Well Enhancement Services, which accounted for 72% of total revenues for the three months ended September 30, 2018, decreased \$833,000, or 21%, to \$3.2 million compared to \$4.0 million for the three months ended September 30, 2017. This segment, which accounted for 86% of total segment revenues for the nine months ended September 30, 2018, and its revenues increased \$7.7 million, or 35%, to \$29.5 million compared to \$21.8 million for the nine months ended September 30, 2017. For the three month period, a significant amount of rainfall in South Texas negatively impacted our revenue and segment profit results. For the nine month period, increased demand for services due to improved industry conditions led to increased activity with our customer base.

Frac water heating revenues decreased for the three months ended September 30, 2018 by \$93,000, or 65%, to \$49,000 compared to \$142,000 for the three months ended September 30, 2017. Frac water heating revenues increased for the nine months ended September 30, 2018 by \$6.8 million, or 63%, to \$17.7 million compared to \$10.8 million for the nine months ended September 30, 2017. The third quarter is historically the weakest quarter for this service line, which depends on colder temperatures more than our other service offerings. For the nine months ended September 30, 2018, improved industry conditions including relatively stable commodity prices and increased drilling rig activity increased demand for our services. Particularly strong gains occurred from the Marcellus Shale and Utica Shale formations in Pennsylvania, due to increased activity and colder temperatures as well as general industry activity in the region.

Hot oil revenues for the three months ended September 30, 2018 decreased approximately \$205,000, or 8%, to \$2.2 million compared to \$2.4 million for the three months ended September 30, 2017. Hot oil revenues for the nine months ended September 30, 2018 increased approximately \$628,000, or 8%, to \$8.7 million from \$8.1 million compared to \$8.0 million for the nine months ended September 30, 2017. Results during the three months ended September 30, 2018 were impacted by significant rainfall in South Texas. Hot oil service revenues from our expansion of service in the Eagle Ford combined with increased revenues in the DJ Basin and North Dakota due to improved commodity prices were the primary reasons for the increases in revenue in the nine months ended September 30, 2018, over last year.

Acidizing revenues for the three months ended September 30, 2018 decreased by approximately \$203,000, or 25%, due to delays in establishing a presence in new markets, following a reallocation of our equipment out of certain basins where we believe demand was waning. Acidizing revenues for the nine months ended September 30, 2018 increased by approximately \$385,000, or 19%, due to an overall increase in demand for service work, in addition to our performing several large individual projects for a customer in Texas.

Segment profits for our core well enhancement services decreased by \$617,000, to a loss of \$746,000 for the three months ended September 30, 2018 compared to a segment loss of approximately \$129,000 in the same period in 2017, due primarily to a reduction in revenue for the segment described above, and was also negatively impacted by an approximate \$267,000 increase in costs related to our previous, partially self-insured employee health insurance plan. The significant majority of this increase related to actual claims costs incurred pursuant to claims covered by our previous insurance company, which resulted in increases in reserve requirements and cash payments by us. Previously, we had deferred a portion of such reserve payments, and incremental claim activity during the three months ended September 30, 2018 caused us to expense a portion of the deferred amount. Segment profits for our core well enhancement services increased by \$1.7 million, to a profit of \$6.6 million for the nine months ended September 30, 2018 compared to a segment profit of approximately \$4.9 million in the same period in 2017, due primarily to increased revenues, as described above, which were achieved without a corresponding increase in our fixed costs, but offset by costs related to the workers compensation claim described above.

#### Water Transfer Services

For the three months ended September 30, 2018, Water Transfer Services accounted for 14% of total revenue, and decreased by approximately \$164,000, or 21%, to \$634,000. The decrease in revenue was attributable to continued challenges in finding adequate work for our water transfer assets throughout the period. For the nine months ended September 30, 2018, Water Transfer Services accounted for 7% of total revenue, and increased by approximately \$702,000, or 38%, to \$2.6 million. We consider the water transfer services segment to be an opportunity to grow our business with both new and existing customers and believe it offers opportunity to alleviate the level of seasonality we have historically experienced despite the decrease in revenue experienced quarter over quarter in the third quarter of 2018 versus the third quarter of 2017.

Table of Contents

Water Transfer segment loss for the three months ended September 30, 2018 was approximately \$16,000, compared to a loss of approximately \$24,000 for the comparable period in 2017. Water Transfer segment loss for the nine months ended September 30, 2018 was approximately \$28,000, compared to a loss of approximately \$258,000 for the comparable period in 2017. The decrease in the loss was due to significantly higher revenues as we obtained new customer projects in 2018 without a corresponding increase in fixed costs.

Water Hauling Services

For the three months ended September 30, 2018, water hauling service revenues decreased approximately \$273,000, or 30%, for the nine months ended September 30, 2018, water hauling service revenues decreased approximately \$340,000, or 13% primarily due to lower water hauling revenues in our Central USA region due to scaled back service work and the cessation of certain low margin accounts.

Enservco incurred segment loss of approximately \$95,000 for the three months ended September 30, 2018 compared to segment profit of approximately \$110,000 for the comparable period in 2017. The Company recorded a segment loss of approximately \$297,000 for the nine months ended September 30, 2018 compared to segment loss of approximately \$229,000 for the comparable period in 2017. The three and nine months ended September 30, 2017 included a \$250,000 accrual for costs related to a workers' compensation claim related to an injury sustained by an employee in our water hauling subsidiary. Segment revenues during the three months ended September 30, 2017 were also negatively impacted by heavy rains.

Unallocated and Other

Unallocated and other costs include costs which are not specifically allocated to the business segments above including labor, travel, and operating costs for regional managers and safety compliance with responsibilities for all segments. These costs also include costs relating to our construction services work in 2017, which we no longer consider a reportable segment.

During the three months ended September 30, 2018, unallocated segment costs related to our regional managers decreased by approximately \$75,000, or 35%, to approximately \$141,000 compared to \$216,000 for the comparable period in 2017, primarily due to the reclassification of costs relating to our formal business development efforts from functional support into selling, general and administrative expenses, and from the departure of one of our area managers during 2018. During the nine months ended September 30, 2018, unallocated segment costs related to our regional managers decreased by approximately \$136,000, or 23%, to approximately \$467,000 compared to \$603,000 for the comparable period in 2017 due to the departure of one of our regional managers and the fact that expenses associated with personnel costs related to our sales effort are classified as Sales, general, and administrative

expenses in the current year and were classified as functional support in the prior year.

Table of ContentsGeographic Areas

The Company operates solely in the United States, in what it believes are three geographically diverse regions. The following table sets forth revenue from operations for the Company's three geographic regions during the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017		2017	
BY GEOGRAPHY				
Rocky Mountain Region (1)	\$2,049	\$2,797	\$20,230	\$18,011
Central USA Region (2)	2,236	2,665	11,012	7,935
Eastern USA Region (3)	187	280	3,143	677
Total Revenues	\$4,472	\$5,742	\$34,385	\$26,623

Notes to tables:

Includes the D-J Basin/Niobrara field (northeastern Colorado and southeastern Wyoming), the Powder River and (1) Green River Basins (northeastern and southwestern Wyoming), the Bakken area (western North Dakota and eastern Montana). Heat Waves and HWWM operate in this region.

Includes the Eagle Ford Shale and Austin Chalk (southern Texas) and Mississippi Lime, Hugoton Field, and (2) Scoop/Stack (southwestern Kansas, Oklahoma, and the Texas panhandle). Heat Waves, Dillco, and HWWM operate in this region

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

Revenues in the Rocky Mountain Region decreased approximately \$748,000, or 27%, to \$2.0 million for the three months ended September 30, 2018 primarily due to personnel turnover in the business development function. Revenues in the Rocky Mountain Region increased approximately \$2.2 million, or 12%, to \$20.2 million for the nine months ended September 30, 2018. The increase in revenues were primarily driven by an increase in activity in the DJ Basin and Bakken area.

Revenues in the Central USA region for the three months ended September 30, 2018 decreased by approximately \$429,000, or 16%, to \$2.2 million, compared to the same period in 2017. Revenues in the Central USA region for the nine months ended September 30, 2018 increased by approximately \$3.1 million, or 39%, to \$11.0 million, compared to the same period in 2017 primarily due to equipment down time related to facilities realignment and associated turnover of hot oiling and acidizing personnel, as well as the impact of two weeks of record rainfall. The increase in revenues was primarily driven by the expansion of our services into the Eagle Ford Shale and Austin Chalk.

Revenues in the Eastern USA region decreased approximately \$93,000, or 33%, to approximately \$187,000 for the three months ended September 30, 2018 compared to the same period in 2017 primarily due to a reduction in services performed for a non-energy customer in 2017. Revenues in the Eastern USA region increased approximately \$2.5 million, or 364%, to approximately \$3.1 million for the nine months ended September 30, 2018 compared to the same period in 2017. The increase in revenues was driven by increased service work in the Marcellus Basin due to increased activity levels and colder temperatures in 2018.

Table of Contents

*Historical Seasonality of Revenues*

Because of the seasonality of our frac water heating and hot oiling business, revenues generated during the first and fourth quarters of our fiscal year, covering the months during our “heating season”, are significantly higher than our revenues during the second and third quarters of our fiscal year. In addition, the revenue mix of our service offerings also changes outside our heating season as our Well Enhancement services (which includes frac water heating and hot oiling) typically decrease as a percentage of total revenues which are in higher demand in the colder winter months, Water Transfer and Water Hauling services and other services increase. Thus, the revenues recognized in our quarterly financial statements 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 generated 69% of its 2017 revenues during the first and fourth quarters compared to 31% during the second and third quarters of 2017.

***Sales, General, and Administrative Expenses:***

During the three months ended September 30, 2018, sales, general, and administrative expenses increased approximately \$53,000, or 5% to \$1.2 million compared to the same period in 2017 primarily due to an increase related to our business development team partially offset by a reduction in stock compensation expense. During the nine months ended September 30, 2018, sales, general, and administrative expenses increased approximately \$380,000, or 11% to \$3.8 million compared to \$3.4 million in the same period in 2017, primarily due to increased personnel costs related to the buildout of the Company's business development team, partially offset by a decrease in stock compensation expense.

***Patent Litigation and Defense Costs:***

Patent litigation and defense costs decreased to \$2,000 from \$29,000 for the three months ended September 30, 2018. Patent litigation and defense costs decreased to \$77,000 from \$96,000 for the nine months ended September 30, 2018. As discussed in Part II, Item 1. – Legal Proceedings, the U.S. District Court for the District of Colorado issued a decision on July 20, 2015 to stay the Company's case with HOTF pending an appeal of a 2015 judgment by a North Dakota Court invalidating the '993 Patent. In July of 2018, HOTF requested that the Federal Circuit reconsider its May 4, 2018 judgment. On August 6, 2018 the Federal Circuit Court denied HOTF's request for a rehearing. As a result, litigation and defense costs have been minimal since July 2015.

Enservco and Heat Waves deny that they are infringing any valid, enforceable claim of the asserted HOTF patents, and intend to continue to vigorously defend themselves in the Colorado Case and challenge the validity and/or enforceability of these patents should the lawsuit resume. The Company expects associated legal fees to be minimal going forward until the Colorado Case is resumed. If HOTF does not petition the U.S. Supreme Court, the Colorado Case will re-open and may resume.

***Depreciation and Amortization:***

Depreciation and amortization expense for the three months ended September 30, 2018 decreased \$135,000, or 8%, from the same period in 2017 due to equipment becoming fully depreciated. Depreciation and amortization expense for the nine months ended September 30, 2018 decreased \$200,000, or 4%, from the same period in 2017 due to equipment becoming fully depreciated.

***Income (Loss) from operations:***

For the three months ended September 30, 2018, the Company recognized loss from operations of \$3.7 million compared to loss from operations of \$3.1 million for the comparable period in 2017. For the nine months ended September 30, 2018, the Company recognized loss from operations of \$3.4 million compared to a loss from operations of \$5.4 million for the comparable period in 2017. The improvement of \$2.0 million was primarily due to a \$2.0 million increase in segment profits, partially offset by the increase in Sales, General, and Administrative Expenses.

***Interest Expense:***

Interest expense decreased approximately \$128,000, or 21%, for the three months ended September 30, 2018, compared to the same period in 2017. Interest expense for the nine months ended September 30, 2018 decreased approximately \$327,000 primarily due to \$255,000 of accelerated amortization expense of debt issuance costs during the nine months ended September 30, 2017 related to the reduction in term of the PNC credit facility. Interest expense for the nine months ended September 30, 2018 included the acceleration of subordinated debt discount of approximately \$48,000 related to a paydown of a portion of the subordinated debt balance.

***Other expense (income):***

Other income for the three months ended September 30, 2018 was approximately \$38,000 compared with other expense of approximately \$264,000 for the same period in 2017. The decrease was primarily driven by losses



recognized on the change in fair value of our now-retired warrant liability, while 2018 was mostly comprised of an increase in the fair value of our interest rate swap. Other expense of approximately \$467,000 during the nine months ended September 30, 2018 was comprised of the loss on the fair value of our now-retired warrant liability partially offset by an increase in the fair value of our derivative swap instrument and other income. Other expense of approximately \$222,000 during the nine months ended September 30, 2017 was mostly comprised of the unrealized loss on the warrant liability.

***Income Taxes:***

As of December 31, 2017, the Company had recorded a full valuation allowance on a net deferred tax asset of \$1.5 million. Our income tax provision of \$420,000 for the nine months ended September 30, 2018 reduced the gross amount of the deferred tax asset and we reduced the valuation allowance by a like amount which resulted in a net tax provision of zero. During the nine months ended September 30, 2017, the Company recorded an income tax benefit of approximately \$2.4 million. Our effective tax rate was approximately 0% for the nine months ended September 30, 2018, and 33% for the nine months ended September 30, 2017, respectively. Our effective tax expense in 2017 approximates the federal statutory rate at the time of the filing of our Form 10-Q for the three and nine months ended September 30, 2017.

Table of Contents**Adjusted EBITDA\***

Management believes that, for the reasons set forth below, Adjusted EBITDA (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 (in thousands):

	<b>Three Months Ended September 30, 2018    2017</b>		<b>Nine Months Ended September 30, 2018    2017</b>	
<b>Adjusted EBITDA*</b>				
Net Loss	\$(4,108)	\$(2,509)	\$(5,349)	\$(4,986)
Add Back (Deduct)				
Interest expense	471	599	1,482	1,809
Provision for income tax (benefit) expense	-	(1,415)	32	(2,407)
Depreciation and amortization	1,483	1,618	4,669	4,869
EBITDA*	(2,154)	(1,707)	834	(715 )
Add back (Deduct)				
Stock-based compensation	103	126	291	572
Patent litigation and defense costs	2	29	77	96
Severance and transition costs	-	16	633	784
(Gain) on disposal of equipment	-	-	(53 )	-
Acquisition-related expenses	38	-	38	-
Other (income) expense	(38 )	264	467	222
Adjusted EBITDA*	\$(2,049)	\$(1,272)	\$2,287	\$959

\*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 (earnings), before interest expense, income taxes, and depreciation and amortization. Adjusted EBITDA excludes stock-based compensation from EBITDA and, when appropriate, other items that management does not utilize in assessing the Company's ongoing operating performance as set forth in the next paragraph. 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.

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, warrants issued, etc.) or (ii) items that management does not consider to be useful in assessing the Company's ongoing operating performance (e.g., income taxes, severance and transition costs related to the executive management team, gain on sale of investments, loss on disposal of assets, patent litigation and defense costs, other expense (income), 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.

We use, and we believe investors benefit from the presentation of, EBITDA and Adjusted EBITDA in evaluating our operating performance because it provides us and our investors with an additional tool to compare our operating performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our core operations. We believe that EBITDA is useful to investors and other external users of our financial statements in evaluating our operating performance because EBITDA is widely used by investors to measure a company's operating performance without regard to items such as interest expense, taxes, and depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired. Additionally, our fixed charge coverage ratio covenant associated with our 2017 Credit Agreement requires the use of Adjusted EBITDA in specific calculations.

Table of Contents

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\****

Adjusted EBITDA for the three months ended September 30, 2018 decreased by approximately \$777,000 due primarily to various increases in costs (in certain cases, not related to the increase in activity) that had a negative impact on our profitability. Adjusted EBITDA for the nine months ended September 30, 2018 increased by approximately \$1.3 million, due primarily to the increase in segment profits from well enhancement and water transfer services partially offset by the increase in sales, general, and administrative expenses discussed above.

**LIQUIDITY AND CAPITAL RESOURCES*****Liquidity Update***

As described in more detail in Note 4 to our financial statements included in "Item 1. Financial Statements" of this report, on August 10, 2017, we entered into the 2017 Credit Agreement with East West Bank (the "New Credit Facility") which provides for a three-year \$30 million senior secured revolving credit facility, to replace the Prior Credit Facility provided under the 2014 Credit Agreement with PNC.

As of September 30, 2018, we were in compliance with all covenants contained in the 2017 Credit Agreement. The following table summarizes our statements of cash flows for the nine months ended September 30, 2018 and 2017 (in thousands):

	<b>For the Nine Months Ended</b>	
	<b>September 30, 2018</b>	<b>2017</b>
Net cash provided by (used in) operating activities	\$5,664	\$(552 )
Net cash used in investing activities	(1,363)	(1,163)
Net cash (used in) provided by financing activities	(4,653)	1,574
Net Decrease in Cash and Cash Equivalents	(352 )	(141 )

Edgar Filing: Enservco Corp - Form 10-Q

Cash and Cash Equivalents, Beginning of Period	391	621
Cash and Cash Equivalents, End of Period	\$39	\$480

Table of Contents

The following table sets forth a summary of certain aspects of our balance sheet at September 30, 2018 and December 31, 2017:

	<b>September 30,  2018</b>	<b>December 31,  2017</b>
Current Assets	\$ 4,730	\$ 13,653
Total Assets	\$ 31,809	\$ 44,250
Current Liabilities	\$ 2,159	\$ 5,647
Total Liabilities	\$ 26,792	\$ 36,025
		\$
Stockholders' Equity	\$ 5,017	\$ 8,225
Working Capital (Current Assets net of Current Liabilities)	\$ 2,571	\$ 8,006

**Overview:**

We have relied on cash flow from operations, borrowings under our revolving credit agreements, and equity and debt offerings 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 on the availability of equity and debt financing. At September 30, 2018, we had approximately \$39,000 in cash and cash equivalents and approximately \$2.8 million available under the New Credit Facility. Our capital requirements over the next 12 months are anticipated to include, but are not limited to, operating expenses, debt servicing, and capital expenditures including maintenance of our existing fleet of assets.

As of September 30, 2018, we had an outstanding principal loan balance under the 2017 Credit Agreement of approximately \$22.6 million with a weighted average interest rate of 5.70% per year for \$21.5 million of outstanding LIBOR Rate borrowings (which includes the effect of our interest rate swap agreement described below) and 7.0% per year for the approximately \$1.1 of outstanding Prime Rate borrowings. The 2017 Credit Agreement allows us to borrow up to 85% of our eligible receivables and up to 85% of the appraised value of our eligible equipment.

On March 31, 2017, our largest shareholder, Cross River Partners, L.P., posted a letter of credit in the amount of \$1.5 million in accordance with the terms of the Tenth Amendment to the 2014 Credit Agreement. The letter of credit was converted into subordinated debt with a maturity date of June 28, 2022 with a stated interest rate of 10% per annum and a five-year warrant to purchase 967,741 shares of our common stock at an exercise price of \$0.31 per share. On May 10, 2017, Cross River Partners, L.P. also provided \$1 million in subordinated debt to us as required under the terms of the Tenth Amendment to the 2014 Credit Agreement. This subordinated debt has a stated annual interest rate

of 10% and maturity date of June 28, 2022. In connection with this issuance of subordinated debt, Cross River Partners L.P. was granted a five-year warrant to purchase 645,161 shares of our common stock at an exercise price of \$0.31 per share. On June 29, 2018 Cross River exercised both warrants and acquired 1,612,902 shares of our common stock. Proceeds from the exercise of the warrants in the amount of \$500,000 were used to reduce the subordinated debt balance.

Table of Contents

***Interest Rate Swap***

On February 23, 2018, we entered into an interest rate swap agreement with East West Bank (the "2018 Swap") in order to hedge against the variability in cash flows from future interest payments related to the New Credit Facility. The terms of the interest rate swap agreement included an initial notional amount of \$10.0 million, a fixed payment rate of 2.52% paid by us, and a floating rate payment equal to LIBOR paid by East West Bank. The purpose of the swap agreement is to adjust the interest rate profile of our debt obligations.

On September 17, 2015, we entered into an interest rate swap agreement with PNC (the "2015 Swap") in order to hedge against the variability in cash flows from future interest payments related to the 2014 Credit Agreement. The terms of the interest rate swap agreement included an initial notional amount of \$10.0 million, a fixed payment rate of 1.88% plus an applicable margin ranging from 4.50% to 5.50% paid by us and a floating payment rate equal to LIBOR plus an applicable margin of 4.50% to 5.50% paid by PNC. The purpose of the swap agreement was to adjust the interest rate profile of our debt obligations and to achieve a targeted mix of floating and fixed rate debt. In connection with the termination of the 2014 Credit Agreement, we terminated the interest rate swap agreement with PNC.

During the three months ended September 30, 2018, the fair market value of the swap instrument increased by approximately \$33,000 and resulted in an increase in other income. During the nine months ended September 30, 2018, the fair market value of the swap instrument increased by approximately \$64,000 and resulted in an asset being recorded and an increase in other income.

In connection with the termination of the 2014 Credit Agreement, during the three months ended September 30, 2017, we terminated the interest rate swap agreement with PNC. The cost to terminate the interest rate swap was approximately \$90,000, and we recorded the difference between the cost to terminate the swap and the valuation of the swap of approximately \$18,000, as of June 30, 2017, as additional interest expense during the three months ended September 30, 2017.

During the three months ended September 30, 2017, the fair market value of the 2015 Swap instrument decreased by approximately \$11,000 and resulted in an increase to the liability and an increase in other expense. During the nine months ended September 30, 2017, the fair market value of the swap instrument increased by approximately \$19,000 and resulted in a decrease to the liability and a reduction in interest expense.

***Liquidity:***

As of September 30, 2018, our available liquidity was \$2.8 million, which was substantially comprised of \$2.8 million of availability on the New Credit Facility (at certain times subject to a covenant requirement that we maintain \$1.5



million of available liquidity) and \$39,000 in cash. We utilize the New Credit Facility to fund working capital requirements, and during the nine months ended September 30, 2018, we made net cash payments to repay amounts due pursuant to the New Credit Facility of approximately \$4.5 million, and additionally received approximately \$103,000 in non-cash proceeds to fund costs incurred pursuant to the 2017 Credit Agreement.

***Working Capital:***

As of September 30, 2018, we had working capital of approximately \$2.6 million compared to working capital of \$8.0 million as of December 31, 2017, primarily attributable to the year-end accounts receivable balance which was higher due to higher frac water heating revenues in the fourth quarter of 2017.

***Deferred Tax Asset, net:***

As of September 30, 2018, the Company had recorded a valuation allowance to reduce its net deferred tax assets to zero.

Table of Contents

***Cash flow from Operating Activities:***

For the nine months ended September 30, 2018, cash provided by operating activities was approximately \$5.7 million compared to \$552,000 in cash used in operating activities during the comparable period in 2017. The increase was attributable to (i) the increase in cash flows provided by the monetization of accounts receivable during the nine months ended September 30, 2018 compared to the comparable period in 2017, and (ii) the decrease in Loss Before Tax Expense (Benefit) related to improved operating results.

***Cash flow from Investing Activities:***

Cash used in investing activities during the nine months ended September 30, 2018 was approximately \$1.4 million, compared to \$1.2 million during the comparable period in 2017, primarily due to an increase in the purchase of and maintenance to trucks and vehicles, and the purchase of water transfer equipment related to an increase in our pipeline of potential water transfer opportunities.

***Cash flow from Financing Activities:***

Cash used in financing activities for the nine months ended September 30, 2018 was \$4.7 million compared to \$1.6 million in cash provided by financing activities for the comparable period in 2017. During the nine months ended September 30, 2018, due to increased receipts of cash from operations, the Company made higher net payments to its revolving credit facility than during the comparable period in 2017.

***Outlook:***

We believe that the current oil and gas environment provides us an opportunity to increase our cash flows through the increased utilization of our asset base, due to industry dynamics and our focus on deploying our assets into areas where our services are in high demand. We have experienced an increase in such demand due to the fairly stable oil and natural gas commodity prices from 2016 lows, and increases in the level of production and development activities across the industry. Our 2018 financial results, to date, reflect our improved operational execution in response to this increased demand, and we are optimistic about the prospects for the remainder of 2018. Our long-term goals include driving increased utilization of our assets, an optimized deployment of our fleet, and the right-sizing of our balance sheet by paying down debt. We continue to seek opportunities to expand our business operations through organic growth, including increasing the volume of current services offered to our new and existing customers. We may identify additional services to offer to our customer base, and make related investments as capital and market

conditions permits. We will continue to explore adding high margin services that diversify and expand our customer relationships while maintaining an appropriate balance between recurring maintenance work and drilling and completion related services.

***Capital Commitments and Obligations:***

Our capital obligations as of September 30, 2018 consist primarily of scheduled principal payments under certain term loans and operating leases. We repaid all amounts due under the 2014 Credit Agreement using proceeds from the 2017 Credit Agreement. We do not have any scheduled principal payments under the 2017 Credit Agreement until August 10, 2020; however, the Company may need to make future principal payments based upon collateral availability. General terms and conditions for amounts due under these commitments and obligations are summarized in the notes to the financial statements.

Table of Contents

**OFF-BALANCE SHEET ARRANGEMENTS**

As of September 30, 2018, we 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.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our critical accounting policies and estimates have not changed from those reported in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in in our 2017 10-K.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are a smaller reporting company as defined in Rule 12b-2 of the Exchange Act and are not required to provide the information under this Item.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

As required by Rule 13a-15 under the Exchange Act, as of September 30, 2018, 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 September 30, 2018.

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 Exchange 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 Exchange 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 Exchange Act) during the quarter ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II**

**ITEM 1. LEGAL PROCEEDINGS**

Enservco Corporation ("Enservco") and its subsidiary Heat Waves Hot Oil Service LLC ("Heat Waves") are defendants in a stayed civil lawsuit, Civil Action No. 1:15-cv-00983-RBJ ("Colorado Case"), that alleges that Enservco and Heat Waves, in offering and selling frac water heating services, infringed and induced others to infringe two patents owned by Heat-On-The-Fly, LLC ("HOTF"). The complaint relates to only a portion of the frac water heating services provided by Heat Waves. The Colorado Case has been stayed pending a final resolution of an appeal by HOTF to the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") of a North Dakota Court's ruling that the primary patent ("the '993 Patent") in the Colorado Case was invalid. Neither Enservco nor Heat Waves is a party to the North Dakota Case, which involves other energy companies.

In March of 2015, the North Dakota Court determined that the '993 Patent was invalid. The same Court also later found that the '993 Patent was unenforceable due to inequitable conduct by the Patent Owner and/or the inventor. As noted above, the Patent Owner appealed these judgments to the Federal Circuit as well as several other adverse judgments and orders by the North Dakota Court. On May 4, 2018, among other things, the Federal Circuit, affirmed the North Dakota Court's finding of inequitable conduct with regard to the '993 Patent; agreed with the North Dakota jury's finding that HOTF acted in bad faith in connection with a tortious interference claim; set aside the North Dakota Court's denial of the Energy Companies' attorneys' fees; and chose not to address the North Dakota Court's finding of invalidity of the '993 Patent. The case has been sent back to the North Dakota Court to determine the issue of the energy companies' attorneys' fees. In July of 2018, HOTF requested that the three-judge panel of the Federal Circuit reconsider its May 4, 2018 judgement. On August 6, 2018 the Federal Circuit denied the HOTF request for a rehearing. In addition to the request made in July, HOTF can petition the U.S. Supreme Court or ask that these issues be heard by the entire bench of the Federal Circuit.

In September 2016 and February 2017, HOTF was issued two additional patents, both of which could be asserted against Enservco and/or Heat Waves. Management believes that final findings of invalidity and/or unenforceability of the '993 Patent based on inequitable conduct could serve as a basis to affect the validity and/or enforceability of each of HOTF's patents. If all of these Patents are ultimately held to be invalid and/or unenforceable, the Colorado Case would become moot.

As noted above, the Colorado Case has been stayed. However, in the event that HOTF ultimately succeeds after exhausting all appeals and the '993 Patent is found to be valid and/or enforceable, the Colorado Case may resume. To the extent that Enservco and Heat Waves are unsuccessful in their defense of the Colorado Case, they could be liable for enhanced damages/attorneys' fees (both of which may be significant) and Heat Waves could possibly be enjoined from using any technology that is determined to be infringing. Either result could negatively impact Heat Waves' business and operations. At this time, the Company is unable to predict the outcome of this case, and accordingly has

not recorded an accrual for any potential loss.

## ITEM 1A. RISK FACTORS

In addition to the risk factors set forth in the Company's annual report on Form 10-K for the year ended December 31, 2017 filed on March 22, 2018, the Company is also subject to the following risks.

***Our success depends on key members of our management, the loss of any executive or key personnel could disrupt our business operations.***

We depend to a large extent on the services of certain of our executive officers. The loss of the services of Ian Dickinson, Kevin Kersting, Dustin Bradford or other key personnel, could disrupt our operations. Although we have entered into employment agreements with Messrs. Dickinson, Kersting, and Bradford, that contain, among other things non-compete and confidentiality provisions, we may not be able to enforce the non-compete and/or confidentiality provisions in the employment agreements.

***Failure to successfully integrate the operations of Adler could materially increase our costs with a resulting negative effect on our results of operations.***

Our recent acquisition of Adler Hot Oil Service, LLC will require an integration of its operations into our Company. While we are optimistic about the integration of Adler into the Company, we may experience unforeseen delays and operational issues in seeking to complete the integration. These unforeseen circumstances could include employee turnover, significant management time devoted to the integration, loss of Adler customers, as well as discovery of unanticipated liabilities. Any of these factors could have a material adverse effect on the Company's operations, revenues and liquidity. In addition, the Company has financed a significant portion of the Adler acquisition through payment of a note to the Seller. This note will be payable regardless of the results of operations and the combined companies and could have a significant negative effect on our liquidity.

Table of Contents

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.



Table of Contents

**ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Title</b>
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Ian Dickinson, Principal Executive Officer). Filed herewith.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Dustin Bradford, Principal Financial Officer). Filed herewith.
32	Certification Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Ian Dickinson, Chief Executive Officer, and Dustin Bradford, Chief Financial Officer). Filed herewith.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

Table of Contents

**SIGNATURES**

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

ENSERVCO CORPORATION

Date: November 14, 2018

/s/ Ian Dickinson  
Ian Dickinson, Principal Executive  
Officer and Chief

Executive Officer

Date: November 14, 2018

/s/ Dustin Bradford  
Dustin Bradford, Principal Financial  
Officer and Chief Financial Officer