Enservco Corp
Form 10-Q
November 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

or

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number 001-36335

ENSERVCO CORPORATION

(Exact Name of registrant as Specified in its Charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Enservco was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **X** No

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

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

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

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

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

Class	**Outstanding at November 9, 2015**
Common stock, $.005 par value	38,115,462

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENSERVCO CORPORATION

Condensed Consolidated Balance Sheets

	September 30, 2015 (Unaudited)	**December 31, 2014**
ASSETS		
Current Assets		
Cash and cash equivalents	$747,500	$954,058
Accounts receivable, net	3,212,609	14,679,858
Prepaid expenses and other current assets	1,287,107	1,540,667
Inventories	324,578	390,081
Income tax receivable	1,967,732	1,776,035
Deferred tax asset	135,055	135,055
Total current assets	7,674,581	19,475,754
Property and Equipment, net	37,105,534	37,789,004
Goodwill	301,087	301,087
Other Assets	686,939	716,836
TOTAL ASSETS	$45,768,141	$58,282,681
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$2,665,704	$5,472,163
Current portion of long-term debt	321,737	340,520
Total current liabilities	2,987,441	5,812,683
Long-Term Liabilities		
Senior revolving credit facility	18,929,416	28,634,037
Long-term debt, less current portion	618,189	801,968
Deferred income taxes, net	4,623,748	4,992,681
Total long-term liabilities	24,171,353	34,428,686
Total liabilities	27,158,794	40,241,369
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, 38,214,758 and 37,159,815 shares issued, respectively; 103,600 shares of treasury stock; and 38,111,158 and 37,056,215 shares outstanding, respectively	190,556	185,282
Additional paid-in-capital	13,684,972	12,751,389
Accumulated earnings	4,733,819	5,104,641
Total stockholders' equity	18,609,347	18,041,312
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$45,768,141	$58,282,681

See notes to condensed consolidated financial statements.

ENSERVCO CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

	For the Three Months Ended September 30,		**For the Nine Months Ended September 30,**	
	2015	**2014**	**2015**	**2014**
Revenues	$5,308,854	$5,748,754	$30,150,900	$38,285,655
Cost of Revenue	5,355,942	6,319,040	22,184,102	29,287,402
Gross Profit (Loss)	(47,088)	(570,286)	7,966,798	8,998,253
Operating Expenses				
General and administrative expenses	954,831	1,220,877	3,115,557	3,310,518
Patent litigation and defense costs	53,844	63,386	493,058	179,807
Depreciation and amortization	1,489,352	884,964	4,252,124	2,288,852
Total operating expenses	2,498,027	2,169,227	7,860,739	5,779,177
Income (Loss) from Operations	(2,545,115)	(2,739,513)	106,059	3,219,076
Other Income (Expense)				
Interest expense	(360,434)	(225,062)	(860,865)	(720,489)
Other income	22,642	21,775	53,822	44,962
Total other expense	(337,792)	(203,287)	(807,043)	(675,527)
Income (Loss) Before Tax Expense	(2,882,907)	(2,942,800)	(700,984)	2,543,549
Income Tax Benefit (Expense)	1,234,716	1,094,774	330,162	(1,056,639)
Net Income (Loss)	$(1,648,191)	$(1,848,026)	$(370,822)	$1,486,910
Other Comprehensive Income (Loss)	-	(3,735)	-	(7,025)
Comprehensive Income (Loss)	$(1,648,191)	$(1,851,761)	$(370,822)	$1,479,885
Earnings (Loss) per Common Share – Basic	$(0.04)	$(0.05)	$(0.01)	$0.04
Earnings (Loss) per Common Share – Diluted	$(0.04)	$(0.05)	$(0.01)	$0.04
Basic weighted average number of common shares outstanding	38,101,647	36,816,875	37,740,843	36,359,251

Add: Dilutive shares assuming exercise of options and warrants	-	-	-	1,404,213
Diluted weighted average number of common shares outstanding	38,101,647	36,816,875	37,740,843	37,763,464

See notes to condensed consolidated financial statements.

ENSERVCO CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
OPERATING ACTIVITIES				
Net income (loss)	$(1,648,191)	$(1,848,026)	$(370,822)	$1,486,910
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:				
Depreciation and amortization	1,489,352	884,964	4,252,124	2,288,852
Loss (gain) on disposal of equipment	-	(507)	1,071	(9,744)
Deferred income taxes	(1,178,098)	(65,572)	(368,933)	64,259
Stock-based compensation	170,972	372,239	442,243	520,519
Amortization of debt issuance costs	32,265	63,174	90,048	225,823
Bad debt expense	8,205	41,807	21,050	91,807
Changes in operating assets and liabilities				
Accounts receivable	657,071	246,640	11,446,199	7,889,279
Inventories	(19,733)	67,107	65,503	(61,614)
Prepaid expense and other current assets	(263,144)	326,095	278,560	(237,670)
Income taxes receivable	(62,091)	(56,887)	(191,697)	(56,887)
Other non-current assets	14,849	(381,758)	14,849	(395,759)
Accounts payable and accrued liabilities	958,066	1,372,675	(2,806,459)	729,921
Income taxes payable	-	(976,591)	-	(1,278,599)
Net cash provided by operating activities	159,523	45,360	12,873,736	11,257,097
INVESTING ACTIVITIES				
Purchases of property and equipment	(429,623)	(6,155,517)	(3,574,725)	(12,760,006)
Proceeds from sale of equipment	-	-	5,000	50,000
Net cash used in investing activities	(429,623)	(6,155,517)	(3,569,725)	(12,710,006)
FINANCING ACTIVITIES				
Net line of credit borrowings (payments)	376,522	13,763,001	(9,704,621)	13,763,001
Repayment on long-term debt	(34,703)	(11,324,687)	(202,562)	(12,481,676)
Payment of debt issuance costs	(100,000)	(163,962)	(100,000)	(163,962)
Proceeds from exercise of warrants	-	-	77,100	187,804
Proceeds from exercise of stock options	12,250	61,537	198,285	127,987
Excess tax benefits from exercise of options and warrants	3,109	-	221,229	-
Net cash provided by (used in) financing activities	257,178	2,335,889	(9,510,569)	1,433,154

Net Decrease in Cash and Cash Equivalents	(12,922)	(3,774,268)	(206,558)	(19,755)
Cash and Cash Equivalents, Beginning of Period	760,422	5,622,703	954,058	1,868,190
Cash and Cash Equivalents, End of Period	$747,500	$1,848,435	$747,500	$1,848,435
Supplemental cash flow information:				
Cash paid for interest	$219,192	$126,711	$841,252	$478,531
Cash paid for taxes	$2,362	$5,998	$9,236	$2,329,588
Supplemental Disclosure of Non-cash Investing and Financing Activities:				
Cashless exercise of stock options and warrants	$-	$364	$2,751	$7,532

See notes to condensed consolidated financial statements.

ENSERVCO CORPORATION

Notes to the Condensed Consolidated Financial Statements

Note 1 – Basis of Presentation

The accompanying condensed consolidated financial statements have been derived from the accounting records of Enservco Corporation (formerly Aspen Exploration Corporation), Heat Waves Hot Oil Service LLC ("Heat Waves"), Dillco Fluid Service, Inc. ("Dillco"), HE Services LLC, and Real GC, LLC (collectively, the "Company") as of September 30, 2015 and December 31, 2014 and the results of operations for the three and nine months ended September 30, 2015 and 2014.

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

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

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, 2014. All significant inter-company balances and transactions have been eliminated in the accompanying consolidated financial statements.

The accompanying Condensed Consolidated Balance Sheet at December 31, 2014 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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 monitors its positions with, and the credit quality of, the financial institutions with which it invests.

Accounts Receivable

Accounts receivable are stated at the amounts billed to customers. The Company provides a reserve for doubtful accounts based on a review of outstanding receivables, historical collection information and existing economic conditions. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical collection experience related to accounts receivable coupled with a review of the current status of existing receivables. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance. As of September 30, 2015 and December 31, 2014, the Company had an allowance for doubtful accounts of $84,400 and $100,000, respectively. For the three and nine months ended September 30, 2015, the Company recorded bad debt expense (net of recoveries) of $8,205 and $21,050, respectively. For the three and nine months ended September 30, 2014, the Company recorded bad debt expense (net of recoveries) of $41,807 and $91,807, respectively.

Inventory

Inventory consists primarily of propane, diesel fuel and chemicals used in the servicing of oil wells, and is carried at the lower of cost or market in accordance with the first in, first out method. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions. Write-downs and write-offs are charged to cost of goods sold.

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. No impairments were recorded during the three and nine month periods ended September 30, 2015 and 2014.

Property and Equipment

Property and equipment consists of (1) trucks, trailers and pickups; (2) trucks that are in various stages of fabrication; (3) real property which includes land and buildings used for office and shop facilities and wells used for the disposal of water; and (4) other equipment such as tools used for maintaining and repairing vehicles, office furniture and fixtures, and computer equipment. Property and equipment is stated at cost less accumulated depreciation. The Company charges repairs and maintenance against income when incurred and capitalizes renewals and betterments that extend the remaining useful life or expands the capacity or efficiency of the assets. Depreciation is recorded on a straight-line basis over estimated useful lives of 5 to 30 years.

Leases

The Company conducts a major part of its operations from leased facilities. Each of these leases is accounted for as an operating lease. Normally, the Company records rental expense on its operating leases over the lease term as it becomes payable. If rental payments are not made on a straight-line basis, in accordance with the terms of the agreement, the Company records a deferred rent expense and recognizes the rental expense on a straight-line basis throughout the lease term. The majority of the Company’s facility leases contain renewal clauses and expire through January 2021. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

The Company is leasing a number of trucks and equipment in the normal course of business, which are recorded as operating leases. The Company records rental expense on its equipment operating leases over the lease term as it becomes payable; there are no rent escalation terms associated with these equipment leases. On a number of the equipment leases, purchase options exist allowing the Company to purchase the leased equipment at the end of the lease term, based on the market price of the equipment at the time of the lease termination and exercised purchase option. In October 2015, the Company exercised the purchase option on three frac heaters. There are no significant equipment leases outstanding as of November 12, 2015.

The Company has also in the past entered into several capital leases in order to acquire trucks and equipment. Each of these leases allows the Company to retain title of the equipment leased through the lease agreements upon final payment of all principal and interest due. The Company records the assets and liabilities associated with these leases at the present value of the minimum lease payments per the lease agreement. The assets are classified as property and equipment and the liabilities are classified as current and long-term liabilities based on the contractual terms of the agreements and their associated maturities. There are no outstanding capital leases as of September 30, 2015.

Revenue Recognition

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

Earnings Per Share

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

As of September 30, 2015 and 2014, there were outstanding stock options and warrants to acquire an aggregate of 3,635,169 and 3,891,063 shares of Company common stock, respectively, which have a potentially dilutive impact on earnings per share. For the nine months ended September 30, 2014, the incremental shares of the options and warrants to be included in the calculation of diluted earnings per share had a dilutive impact on the Company’s earnings per share of 1,404,213 shares. Dilution is not permitted if there are net losses during the period. As such, the Company does not show dilutive earnings per share for the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015.

Intangible Assets

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

Impairment. The Company assesses goodwill for impairment at the reporting unit level on an annual basis and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value below its carrying amount. Guidance allows a qualitative assessment of impairment to determine whether it is more-likely-than-not that goodwill is impaired. If it is determined that it is more-likely-than-not that an impairment exists, accounting guidance requires that the impairment test be performed through the application of a two-step fair value test. The Company utilizes this method and recognizes a goodwill impairment loss in the event that the fair value of the reporting unit does not exceed its carrying value. During fiscal year ended December 31, 2014, the Company performed the annual impairment test and determined that no impairment existed. For the three and nine month periods ended September 30, 2015 and 2014, the Company did not note any events that occurred, nor did any circumstances change, that would require goodwill to be assessed for impairment.

Loan Fees and Other Deferred Costs

In the normal course of business, the Company enters into loan agreements and amendments thereto with its primary lending institutions. The majority of these lending agreements and amendments require origination fees and other fees in the course of executing the agreements. For all costs associated with the execution of the lending agreements, the Company recognizes these as capitalized costs and amortizes these costs over the term of the loan agreement using the effective interest method. These deferred costs are classified on the balance sheet as current or long-term assets based on the contractual terms of the loan agreements. All other costs not associated with the execution of the loan agreements are expensed as incurred.

Income Taxes

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

Interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expenses. The Company files tax returns in the United States and in the states in which it conducts its business operations. The tax years 2011 through 2014 remain open to examination in the taxing jurisdictions to which the

Company is subject.

Fair Value

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

Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions of what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The Company did not change its valuation techniques nor were there any transfers between hierarchy levels during the nine months ended September 30, 2015. 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 also uses the Black-Scholes valuation model to determine the fair value of warrants. Expected volatility is based upon the weighted average of historical volatility over the contractual term of the warrant and implied volatility. The risk-free interest rate is based upon implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the contractual term of the warrants. The dividend yield is assumed to be none.

Management Estimates

The preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the realization of accounts receivable, stock based compensation expense, income tax provision, and the valuation of deferred taxes. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. The Company reclassified $48,541 and $79,115 of site personnel costs from general and administrative expenses to cost of revenues on the consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2014, respectively, to conform to 2015 presentation. The Company reclassified $63,386 and $179,807 of patent defense costs from general and administrative expenses to patent litigation and defense costs on the consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2014, respectively, to conform to 2015 presentation.

Accounting Pronouncements

Recently Issued

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015 the FASB agreed to defer the effective date by one year, the new standard becomes effective for us on January 1, 2018. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In January 2015, the FASB issued ASU 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." ASU 2015-01 eliminates from U.S. GAAP the concept of an extraordinary item. The Board released the new guidance as part of its simplification initiative, which is intended to "identify, evaluate, and improve areas of U.S. GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements." The ASU is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. The adoption of this guidance is not expected to impact the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. The simplification of the presentation of debt issuance costs is expected to have an immaterial impact on the Company's total assets and debt.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory", effective for annual and interim periods beginning after December 15, 2016. ASU 2015-11 changes the inventory measurement principle for entities using the first-in, first out (FIFO) or average cost methods. For entities utilizing one of these methods, the inventory measurement principle will change from lower of cost or market to the lower of cost and net realizable value. The adoption of this guidance is not expected to impact the Company's consolidated financial statements.

In September 2015, FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments," to amend the guidance for amounts that are adjusted in a merger or acquisition. The standard eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement period adjustments that occur in periods after a business combination is consummated. The ASU is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

Note 3 - Property and Equipment

Property and equipment consists of the following:

	September 30, 2015	December 31, 2014
Trucks and vehicles	$53,023,723	$48,020,268
Other equipment	3,154,538	3,135,916
Buildings and improvements	3,731,143	3,396,280
Trucks in process	417,509	2,366,758
Land	873,427	776,420
Disposal wells	391,003	367,330
Total property and equipment	61,591,343	58,062,972
Accumulated depreciation	(24,485,809)	(20,273,968)
Property and equipment - net	$37,105,534	$37,789,004

Note 4 – PNC Credit Facility

2014 PNC Credit Facility

In September 2014, the Company entered into an Amended and Restated Revolving Credit and Security Agreement (the "2014 Credit Agreement") with PNC Bank, National Association ("PNC") which provides for a five-year $30 million senior secured revolving credit facility which replaced a prior revolving credit facility and term loan with PNC that totaled $16 million (the "2012 Credit Agreement"). The 2014 Credit Agreement allows the Company to borrow up to 85% of eligible receivables and 85% of the appraised value of trucks and equipment. The commitment amount may be increased to $40 million, subject to certain conditions and approvals set forth in the 2014 Credit Agreement. In December 2014, the Company exercised the option to increase the commitment amount to $40 million. Under the 2014 Credit Agreement, there are no required principal payments until maturity in September 2019 and the Company has the option to pay variable interest rate based on (i) 1, 2 or 3 month LIBOR plus an applicable margin ranging from 2.50% to 3.50% for LIBOR Rate Loans or (ii) interest at PNC Base Rate plus an applicable margin of 1.00% to 2.00% for Domestic Rate Loans. Interest is calculated monthly and added to the principal balance of the loan. Additionally, the Company incurs an unused credit line fee of 0.375%. The revolving credit facility is collateralized by substantially all of the Company's assets and subject to financial covenants. The interest rate at September 30, 2015 was 2.69% for the $18,500,000 of outstanding LIBOR Rate Loans and 4.25% for the $429,416 of outstanding Domestic Rate Loans.

Effective February 27, 2015, the Company entered into a Consent and First Amendment (the "First Amendment") with respect to the 2014 Credit Agreement. The First Amendment, among other things, (i) modified certain financial covenants, and (ii) consented to a $100,000 principal prepayment by the Company to a third party bank that eliminated a monthly fee of $12,500 paid to the guarantor of that indebtedness. Effective March 29, 2015, the Company entered into a second amendment to the 2014 Credit Agreement with PNC to increase the Company's leverage ratio, as defined from 2.75 to 1 to 3.50 to 1 and to exclude certain capital expenditures from the calculation of the fixed charge ratio. In July and October 2015, the Company entered into a third and fourth amendment, respectively, to the 2014 Credit Agreement with PNC. The amendments were made to administrative terms of the agreement and did not modify any terms of the financial covenants.

As of September 30, 2015 and December 31, 2014, the Company had an outstanding loan balance of $18,929,416 and $28,634,037, respectively. The outstanding loan balance matures in September 2019. As of September 30, 2015, approximately $12.7 million was available under the revolving credit facility.

Interest Rate Swap

On September 17, 2015, the Company entered into an interest rate swap agreement with PNC which the Company designated as a fair value hedge against the variability in future interest payments related to its 2014 Credit Agreement. The terms of the interest rate swap agreement include a notional amount of $10 million, a fixed payment rate of 1.88% plus applicable a margin ranging from 2.50% to 3.50% paid by the Company and a floating payment rate equal to LIBOR plus applicable margin of 2.50% to 3.50% paid by PNC. The purpose of the swap agreement is to adjust the interest rate profile of the Company's debt obligations and to achieve a targeted mix of floating and fixed rate debt.

During the three and nine month periods ended September 30, 2015, the fair market value of the swap instrument decreased by $160,000 which was recorded as interest expense.

Note 5 – Long-Term Debt

Long-term debt consists of the following:

	September 30, 2015	**December 31, 2014**
Real Estate Loan for our facility in North Dakota, interest at 3.75%, monthly principal and interest payment of $5,255 ending October 3, 2028. Collateralized by land and property purchased with the loan.	$ 546,653	$ 677,204
Note payable to the seller of Heat Waves. The note was garnished by the Internal Revenue Service ("IRS") in 2009 and is due on demand; paid in monthly installments of $3,000 per agreement with the IRS.	215,000	242,000
Mortgage payable to a bank, interest at 5.9%, monthly principal and interest payments of $1,550 through January 2017 with a balloon payment of $88,118 on February 1, 2017; secured by land.	106,294	115,317
Mortgage payable to a bank; interest at 7.25%, due in monthly principal and interest payments of $4,555 through February 2017, secured by land.	71,979	107,967
Total	939,926	1,142,488
Less current portion	(321,737)	(340,520)
Long-term debt, net of current portion	$ 618,189	$ 801,968

Aggregate maturities of debt, excluding the 2014 Credit Agreement described in Note 4, are as follows:

Twelve Months Ending September 30,	
2016	$321,737
2017	159,178
2018	46,409
2019	48,205
2020	50,033
Thereafter	314,364
Total	$939,926

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 Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurement
September 30, 2015				
Derivative Instrument				
Interest rate swap	$-	$ 160,000	$ -	$ 160,000

The interest rate swap as of September 30, 2015 consists of a liability of $160,000 (classified within *Accounts payable and accrued liabilities*).

The Company's derivative instrument (e.g. interest rate swap, or "swap") is valued using models which require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, and correlations of such inputs.

Some of the model inputs used in valuing the derivative instruments trade in liquid markets therefore the derivative instrument is classified within Level 2 of the fair value hierarchy. For applicable financial assets carried at fair value, the credit standing of the counterparties is analyzed and factored into the fair value measurement of those assets. The fair value estimate of the swap does not reflect its actual trading value.

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, 2015 and 2014 differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 34% to pre-tax income primarily because of state income taxes and estimated permanent differences.

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

Note 8 – Commitments and Contingencies

Operating Leases

As of September 30, 2015, the Company leases facilities and certain trucks and equipment under lease commitments that expire through January 2021. Future minimum lease commitments for these operating lease commitments are as follows:

Twelve Months Ending September 30,	
2016	$500,307
2017	374,358
2018	186,750
2019	189,750
2020	168,000
Thereafter	32,000
Total	$1,451,165

Equipment Purchase Commitments

As of September 30, 2015, the Company did not have any outstanding purchase commitments related to the purchase of equipment and construction of building facilities.

Self-Insurance

In June 2015, the Company became self-insured under its Employee Group Medical Plan for the first $75,000 per individual participant. The Company has accrued a liability of approximately $85,000 as of September 30, 2015 for insurance claims that it anticipates paying in the future related to incidents that occurred during the period ended September 30, 2015.

Litigation

In October 2014, the Company was served with a complaint filed in the United States District Court for the Northern District of Texas, Dallas Division (Civil Action No. 3:14-cv-03631) by Heat-On-The-Fly, LLC ("HOTF"), naming Enservco Corporation ("Enservco") and its subsidiary Heat Waves Hot Oil Service LLC ("Heat Waves") as defendants. The complaint alleges that Enservco and Heat Waves, in offering and selling frac water heating services, infringed and induced others to infringe two patents owned by HOTF (U.S. Patent Nos. 8,171,993 ("the '993 Patent") and 8,739,875 ("the '875 Patent")). The complaint seeks various remedies including injunctive relief and unspecified damages and relates to only a portion of Heat Waves' frac water heating services. In May 2015, the case was transferred to the U.S. District Court for the District of Colorado, Civil Action No. 1:15-cv-00983-RBJ ("Colorado Case"). Heat Waves has answered the complaint, denied HOTF's allegations of infringement and asserted counterclaims asking the Court to find, among other things, that it does not infringe either patent and that both patents are invalid. HOTF has replied to and denied those counterclaims. In July 2015, the Company and HOTF jointly asked the Colorado Court to stay the case pending any appeal by HOTF of the partial summary judgment ruling invalidating the '993 Patent referenced below, and on July 20, 2015, the Court granted the parties' joint request. The Colorado case is now stayed pending resolution of appeal by HOTF of the Court's invalidity ruling and the pending '993 Patent reexamination proceeding, also referenced below.

HOTF is currently involved in another litigation with a group of energy companies (which does not include Enservco or Heat Waves) that are seeking to, among other things, invalidate the '993 Patent ("North Dakota Case"). In March 2015, the North Dakota Court granted defendants' partial summary judgment motion, finding that the '993 Patent was invalid. The Court later entered a judgment on this issue, which may be appealed by HOTF once it is made final. In September 2015, a jury trial was conducted. The jury found, among other things, that HOTF represented to a customer of one of the accused defendants that HOTF had a valid patent and this representation was made in bad faith. The jury also found that HOTF unlawfully interfered with a contract and prospective business relationship with that customer and as such, awarded the defendant $750,000 in damages. The jury's verdict is also subject to possible appeal by HOTF. Lastly, the Court also held a bench trial on the energy companies' claim that the '993 Patent is unenforceable due to inequitable conduct by the inventor of the '993 Patent before the U.S. Patent and Trademark Office ("USPTO"). The issue has been fully briefed and the Court has not yet ruled on this matter.

Although the first 12 claims of the ‘993 Patent survived a prior reexamination, the USPTO granted a second request in July 2014 to reexamine the ‘993 Patent in its entirety (all 99 claims, including the prior 12 claims that survived the prior, limited reexamination) based on different reasoning. In February 2015, the USPTO issued initial findings in the second reexamination proceeding, rejecting all 99 claims of the ‘993 Patent as being unpatentable. In April 2015, HOTF filed a response with the USPTO seeking to overcome these pending rejections, but no subsequent decision has been made by the USPTO. The timing of a response from the USPTO and any decision resulting therefrom is uncertain and is subject to appeal by HOTF. Further, HOTF has at least two additional pending patent applications based on the ‘993 and ‘875 Patents, which, if granted, could be asserted against the Company. As the ‘993 Patent and the ‘875 Patent are based on the same subject matter, management believes that a final finding of invalidity of the ‘993 Patent could serve as a basis to affect the validity of the ‘875 Patent. If these Patents are ultimately held to be invalid, the Colorado Case would become moot.

As noted above, the Colorado Case has been stayed. However, in the event that the ‘993 Patent is found to be valid in both the North Dakota Case and through the pending reexamination with the USPTO, 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 damages (which may be significant) and Heat Wave's could possibly be enjoined from using any technology that is determined to be infringing. Either result could negatively impact Heat Wave’s 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 conjunction with a private placement and subordinated debt conversion by the Company’s former Chairman, Mr. Michael D. Herman, in November 2012, the Company granted a one-half share warrant for every full share of common stock acquired by the equity investors or converted by Mr. Herman. As such, the Company granted warrants to purchase 4,960,714 shares of the Company’s common stock, exercisable at $0.55 per share for a five year term. Each of the warrants may be exercised on a cashless basis. The warrants also provide that subject to various conditions, the holders have piggy-back registration rights with respect to the shares of common stock that may be acquired upon the exercise of the warrants. As of September 30, 2015, 37,501 of these warrants remain outstanding.

In November 2012, the Company granted each of the principals of an existing investor relations firm warrants to acquire 112,500 shares of the Company’s common stock (a total of 225,000 shares) for the firm’s assistance in creating awareness for the Company’s private placement. The warrants are exercisable at $0.55 per share and expire 5 years from date of grant. As of September 30, 2015, 112,500 of these warrants remain outstanding.

A summary of warrant activity for the nine months ended September 30, 2015 is as follows:

Warrants	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2014	250,001	$ 0.64	2.29	$ 242,901
Issued for Services	-	-		
Exercised	(100,000)	0.77		
Forfeited/Cancelled	-			
Outstanding at September 30, 2015	150,001	$ 0.55	2.17	$ 19,500
Exercisable at September 30, 2015	150,001	$ 0.55	2.17	$ 19,500

During the nine months ended September 30, 2015, warrants to acquire 100,000 shares were exercised for cash payments totaling $77,100. The warrants exercised had a total intrinsic value of $102,000 at the time of exercise. No warrants were issued during the nine months ended September 30, 2015.

During the nine months ended September 30, 2014, warrants to acquire 1,925,357 shares of common stock were exercised by way of cashless exercise whereby the warrant holders elected to receive 1,482,041 shares without payment of the exercise price and the remaining warrants for 443,316 shares were cancelled. In addition, warrants to acquire 341,462 shares were exercised for cash payments totaling $187,804. The warrants exercised had a total intrinsic value of $4,129,465 at the time of exercise. No warrants were issued during the nine months ended September 30, 2014.

Note 10 – Stock Options

Stock Option Plans

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 may granted under the 2010 Plan is 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, 2015 the number of shares of common stock available under the 2010 Plan was reset to 5,558,432 shares based upon

37,056,215 shares outstanding on that date. Options are 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 of September 30, 2015, there were options to purchase 3,485,168 shares outstanding under the 2010 Plan.

A summary of the range of assumptions used to value stock options granted for the three and nine months ended September 30, 2015 and 2014 are as follows:

	For the Three Months Ended September 30,		**For the Nine Months Ended September 30,**	
	2015	**2014**	**2015**	**2014**
Expected volatility	-	116%	107 - 109%	116 - 124%
Risk-free interest rate	-	0.93%	0.75 - 0.86%	0.72 - 0.93%
Dividend yield	-	-	-	-
Expected term (in years)	-	2.5	3.4	3.0

During the nine months ended September 30, 2015, the Company granted options to acquire 1,123,500 shares of common stock with a weighted-average grant-date fair value of $1.19 per share. During the nine months ended September 30, 2015, options to acquire 720,333 shares of common stock were exercised by way of a cashless exercise whereby the option holders elected to receive 550,276 shares of common stock without payment of the exercise price and the remaining options for 170,057 shares were cancelled. The options had an intrinsic value of $1,131,371 at the time of exercise. In addition, options to acquire 404,667 shares of common stock were exercised for cash payments of $198,285. The options had an intrinsic value of $423,837 at the time of exercise.

During the nine months ended September 30, 2014, the Company granted options to acquire 432,500 shares of common stock with a weighted-average grant-date fair value of $1.67 per share. During the nine months ended September 30, 2014, options to acquire 28,333 shares of common stock were exercised by way of a cashless exercise whereby the option holder elected to receive 24,282 shares of common stock without payment of the exercise price and the remaining options for 4,051 shares were cancelled. The options had an intrinsic value of $75,837 at the time of exercise. In addition, options to acquire 244,999 shares of common stock were exercised for cash payments of $127,987. The options had an intrinsic value of $531,609 at the time of exercise.

The following is a summary of stock option activity for all equity plans for the nine months ended September 30, 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2014	3,500,168	$ 0.90	2.02	$2,785,893
Granted	1,123,500	1.75		
Exercised	(1,125,000)	0.48		
Forfeited or Expired	(13,500)	2.06		
Outstanding at September 30, 2015	3,485,168	$ 1.31	2.78	$173,433
Vested or Expected to Vest at September 30, 2015	3,485,168	$ 1.31	2.78	$173,433
Exercisable at September 30, 2015	2,151,499	$ 1.03	1.87	$173,433

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, 2015, 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, 2015.

During the nine months ended September 30, 2015 and 2014, the Company recognized stock-based compensation costs for stock options of $442,243 and $520,519, respectively in general and administrative expenses. During the three months ended September 30, 2015 and 2014, the Company recognized stock-based compensation for stock options of $170,972 and $372,239, respectively. 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.

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

	Number of Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2014	498,504	$ 1.05
Granted	1,123,500	1.19
Vested	(277,835)	0.80
Forfeited	(10,500)	1.48
Non-vested at September 30, 2015	1,333,669	$ 1.22

As of September 30, 2015, there was $1,223,590 of total unrecognized compensation costs related to non-vested shares under the qualified stock option plans which will be recognized over the remaining weighted-average period of 1.9 years.

Note 11 – Related Party Transactions

Sale of Equipment:

On February 3, 2014, the Board of Directors approved the sale of two trucks and a trailer to an entity owned 50% by the Company's former Chairman for $50,000. The equipment had not been in service for over two years and was not economically feasible for the Company to repair and return to service. The Company was holding this equipment primarily for salvage purposes. At the time of the sale, the equipment had a net book value of $38,000 which resulted in a gain of $12,000. The Company believes the price paid was at least equal to the fair market value of the units had they been sold through auction or in the open market.

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 month periods ended September 30, 2015 and 2014, and our financial condition, liquidity and capital resources as of September 30, 2015, and December 31, 2014. 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:

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

- the effect of seasonal factors;
- the risks associated with the use of intellectual property that may be claimed by others and actual or potential litigation related thereto;
- further sales or issuances of our common stock and the price and volume volatility of our common stock; and
- our common stock's limited and volatile trading history.

Finally, our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in our filings with the SEC and in Part II, Item 1A of this Quarterly Report. For additional information regarding risks and uncertainties, please read our filings with the SEC under the Exchange Act and the Securities Act, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. 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.

BUSINESS OVERVIEW

Enservco Corporation, through its wholly-owned subsidiaries, provides well enhancement and fluid management services to the domestic onshore oil and natural gas industry. These services include frac water heating, hot oiling and acidizing (well enhancement services), and water hauling, fluid disposal, frac tank rental (fluid management services) and other general oilfield services. The Company, through its wholly-owned subsidiaries, owns and operates a fleet of more than 340 specialized trucks, trailers, frac tanks and other well-site related equipment and serves customers in several major domestic oil and gas fields including the DJ Basin/Niobrara field in Colorado, the Bakken field in North Dakota, the Marcellus and Utica Shale fields in Pennsylvania and Ohio, the Jonah Field, Green River and Powder River Basins in Wyoming, the Eagle Ford Shale in Texas, and the Mississippi Lime and Hugoton Fields in Kansas and Oklahoma.

The Company expects to continue to pursue its growth strategies of exploring additional acquisitions, potentially expanding the geographic areas in which it operates, and diversifying the products and services it provides to customers, as well as making further investments in its current core operating assets and equipment provided it can do so on reasonable terms and conditions. The Company will most likely require additional debt or equity financing to fund the costs necessary to expand the services it offers. There can be no assurance that the Company will be able to raise outside capital or have access to outside funding on reasonable terms, if at all.

RESULTS OF OPERATIONS

The following table shows selected financial data and operating results for the periods noted. Following the table, please see management's discussion of significant changes.

	For the Three Months Ended		**For the Nine Months Ended**	
	September 30,		**September 30,**	
	2015	**2014**	**2015**	**2014**
FINANCIAL RESULTS:				
Revenues	$5,308,854	$5,748,754	$30,150,900	$38,285,655
Cost of Revenue	5,355,942	6,319,040	22,184,102	29,287,402
Gross Profit (Loss)	(47,088)	(570,286)	7,966,798	8,998,253
Gross Margin	(1)%	(10)%	26%	24%
Income (Loss) From Operations	$(2,545,115)	$(2,739,513)	$106,059	$3,219,076
Net Income (Loss)	$(1,648,191)	$(1,848,026)	$(370,822)	$1,486,910
Earnings (Loss) per Common Share – Diluted	$(0.04)	$(0.05)	$(0.01)	$0.04

Diluted weighted average number of common shares outstanding	38,101,647	36,816,875	37,740,843	37,763,464
OTHER:				
Adjusted EBITDA*	$(830,947)	$(1,418,924)	$5,293,484	$6,208,254
Adjusted EBITDA* Margin	(16)%	(25)%	18 %	16 %

* Management believes that, for the reasons set forth below, Adjusted EBITDA (even though a non-GAAP measure) is a valuable measurement of the Company's liquidity and performance and is consistent with the measurements offered by other companies in Enservco's industry. See further discussion of our use of EBITDA, the risks of non-GAAP measures, and the reconciliation to Net Income, below.

Executive Summary

We have had challenging market conditions since the October 2014, when crude oil prices were in excess of $100 per barrel, to the present, when prices are less than $50 per barrel. Despite these challenging market conditions, revenues from our core well enhancement services for the quarter ended September 30, 2015 remained flat as compared to the comparative quarter last year, and our gross profit (loss), net income (loss) and Adjusted EBITDA for the quarter ended September 30, 2015 improved considerably over the same quarter in 2014. Incremental revenues from our geographic expansion into the Eagle Ford Shale and Tioga acquisition last November were offset by lower revenues in other locations due to overall decline in drilling, completion, and maintenance activities attributable to lower crude oil and gas prices. We believe our continued geographic expansion into the Eagle Ford Shale and cost management/reduction efforts have helped us to weather the current industry downturn better than some of our peers in the oilfield service sector.

Revenues for the quarter ended September 30, 2015, which is typically our slowest quarter of the year due to limited heating revenues, declined to $5.3 million as compared to $5.7 million for the same quarter last year primarily due to a $389,000 decline in fluid management service and other revenues.

Gross profit (loss) improved by $523,000, or 92%, during the quarter ended September 30, 2015 as compared to the same quarter last year. The improvement was primarily due to managements' successful efforts to reduce operating costs associated with labor, equipment repairs and maintenance, and supplies. Lower diesel prices from the comparable quarter last year also contributed to the lower cost of operations. These improvements were offset by price concessions and discounts to our customers which reduced our gross profit by approximately $278,000.

Net loss for the quarter ended September 30, 2015 improved slightly to a loss of $1.6 million or $(0.04) per share as compared to a loss of $1.8 million or $(0.05) per share for the comparable period last year despite a 68% increase in depreciation and amortization expense during the quarter related to our recent fleet expansion. Adjusted EBITDA, which is typically negative in the third quarter due to the seasonal drop in revenues and the fixed cost components in our cost of revenues, improved $588,000, or 41%, to an Adjusted EBITDA loss of $831,000. For further details on the calculation of Adjusted EBITDA see Adjusted EBITDA section below.

Revenues for the nine months ended September 30, 2015 declined $8.1 million, or 21%, to $30.2 million as compared to $38.3 million for the same period last year. This decrease was primarily due to a $6.6 million decline in propane revenues related to frac water heating and hot oil services with a majority of this decrease occurring during the first quarter. Propane costs declined $6.2 million during the comparative period. A $1.3 million dollar decline in lower margin fluid management service revenues also contributed to the revenue decline.

Gross profits for the nine months ended September 30, 2015 decreased $1.0 million, or 11%, from the comparable period last year. Reduced drilling and completion activities attributable to lower crude oil and gas prices, heavy rainfall in the Midwest during the second quarter, and abnormally warm weather in the DJ Basin during the first quarter 2015 all contributed to lower gross profits. Adjusted EBITDA for the nine months ended September 30, 2015 was $5.3 million, or 18%, of revenues as compared to $6.2 million, or 16% of revenues, for the comparable period last year.

Industry Overview

The decline in crude oil prices over the last year has resulted in our customers scaling back drilling and completion programs, shifting capital resources to higher margin basins, requesting pricing concessions from vendors, and reducing or delaying certain maintenance related work to save costs. Although the Company has been able to partially mitigate the impact of these decisions by increasing market share and deploying resources to more active basins, our revenue growth and operating margins have been impacted by pricing concessions and postponement of hot oiling and acidizing maintenance work. Price concessions granted to customers were 5.2% and 3.6% of total revenues for the three and nine months ended September 30, 2015, respectively.

The impact of pricing pressure from our customers during the nine months ended September 30, 2015 was primarily felt in our hot oiling operations where, due to the declining price of crude oil, we offered up to a 10% discount to customers in several markets in order to retain and increase our market share. These price concessions amounted to less than 6% of overall hot oil revenues. In addition, some customers are delaying their routine hot oiling and acidizing maintenance work. We anticipate a rebound in this work similar to the last down cycle as the deferred maintenance eventually needs to be done to maintain production and protect the efficiency of a well.

Revenue Details

Although the Company does not have segmented business operations, which would require segment reporting within the notes of its financial statements per accounting standards, we believe that revenues by service offering may be useful to readers of our financial statements. The following tables set forth revenue by service offering and geographic region during the three and nine months ended September 30, 2015 and 2014:

	For the Three months Ended		**For the Nine months Ended**	
	September 30,		**September 30,**	
	2015	**2014**	**2015**	**2014**
BY SERVICE OFFERING:				
Well Enhancement Services [1]	$3,375,722	$3,426,850	$24,596,063	$31,425,655
Fluid Management and Other [2]	1,933,132	2,321,904	5,554,837	6,860,000
Total Revenues	$5,308,854	$5,748,754	$30,150,900	$38,285,655

The Company has also determined that an understanding of the diversity of its operations by geography is important to an understanding of its business operations. The Company only does business in the United States in three geographically diverse regions. The following tables set forth revenue by service offering and geographic region during the three and nine months ended September 30, 2015 and 2014:

	For the Three months Ended		**For the Nine months Ended**	
	September 30,		**September 30,**	
	2015	**2014**	**2015**	**2014**
BY GEOGRAPHY:				