

Enservco Corp  
Form 10-K  
March 28, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2010

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

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

Commission file number: 001-12531

ENSERVCO CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

84-0811316  
(IRS Employer  
Identification No.)

830 Tenderfoot Hill Road, Suite 310  
Colorado Springs, CO  
(Address of principal executive offices)

80906  
(Zip Code)

Issuer's telephone number: (719) 867-9911

Securities registered pursuant to Section 12(b) of the Securities Exchange Act: None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act:  
Common Stock, \$0.005 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:  
 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

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:  Yes  No

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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  x

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 Securities Exchange Act of 1934.

Large accelerated filer  o

Accelerated filer  o

Non-accelerated filer  o

Smaller reporting company  p

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  o No  p

The aggregate market value of the common stock held by non-affiliates of the Registrant as of June 30, 2010 was approximately \$1,789,958 based upon the closing sale price of the Registrant's Common Stock on such date. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 15, 2011, there were 21,778,866 shares of the Registrant's common stock outstanding.

PART I

ITEM 1. BUSINESS

Enservco Corporation (the “Company” or “Enservco”) was originally incorporated under the name Aspen Exploration Corporation (“Aspen”) as a Delaware corporation on February 28, 1980 for the primary purpose of acquiring, exploring and developing oil and natural gas and other mineral properties. On June 30, 2009, the Company disposed of all of its remaining oil and natural gas producing assets and as a result was no longer engaged in active business operations. On June 24, 2010, the Company entered into an Agreement and Plan of Merger and Reorganization (the “Agreement”) with Dillco Fluid Service, Inc. (“Dillco”) which set forth the terms by which Dillco merged with a subsidiary of Aspen (the “Merger Transaction”). The Merger Transaction closed on July 27, 2010, and resulted in Dillco becoming a wholly owned subsidiary of the Company. Dillco and its related entities are primarily engaged in the business of providing various services to participants in the oil and gas industry.

On December 30, 2010 the Company changed its name under Delaware law from Aspen Exploration Corporation to Enservco Corporation. The name change was approved by Company stockholders holding approximately 73% of the Company’s outstanding common stock in October 2010, although to assure compliance with the federal securities laws, the approval was not effective until December 2010. The name change was effected primarily because the Company believes the name “Enservco” better describes the Company’s current activities and operations of providing oil field services to the energy industry.

As used in this report, unless otherwise indicated the terms “Enservco” and/or “the Company” refer to Enservco Corporation and its subsidiary entities giving effect to the Merger Transaction, for all periods and events described. The term “Aspen” is intended to refer to the activities of Aspen Exploration Corporation without giving effect to the Merger Transaction, and all such references are intended to give context to the reader. Aspen filed its Annual Report on Form 10-K for its fiscal year ended June 30, 2010 on September 29, 2010, and information with respect to Aspen and its activities prior to the Merger Transaction are included in that report, as well as reports Aspen filed with the Securities and Exchange Commission prior to July 27, 2010.

The Company’s executive (or corporate) offices are located at 830 Tenderfoot Hills Rd., Suite 310, Colorado Springs, Colorado 80906. Our telephone number is (719) 867-9911, and our facsimile number is (719) 867-9912. Our website is [www.enservco.com](http://www.enservco.com).

Corporate Structure

Immediately prior to closing the Merger Transaction, Dillco’s assets and the ownership interests of its subsidiaries were held and controlled primarily through a holding company, Enservco LLC (“LLC”). Starting in 2009 the LLC and its then principal interest holders engaged in a series of transactions aimed to help ensure all assets utilized by the LLC for its business operations were owned through the LLC and to otherwise create better internal efficiency. Certain of these reorganizational transactions are further described under Item 13 of this Annual Report.

On July 26, 2010, immediately prior to completion of the Merger Transaction, Dillco merged into LLC, with Dillco being the surviving entity in that transaction. Prior to that transaction, the LLC served as a holding company for Dillco, Heat Waves Hot Oil Express LLC (“Heat Waves”), and other entities that owned assets utilized by the Company in its business operations.

Immediately prior to the completion of the Merger Transaction, Dillco had two stockholders, Mr. Herman (who owned 90% of the outstanding Dillco stock) and Mr. Kasch (10%). Mr. Herman has been a Manager, Chairman, Chief Executive Officer, and control person of the LLC, Dillco, Heat Waves and the other Dillco subsidiaries since the time of their formation and/or acquisition by the LLC. Mr. Kasch has served as the Chief Financial Officer and a Manager for these same entities since the time of their formation and/or acquisition.

The Company’s business operations are conducted primarily through Dillco and its subsidiary and related entities. Dillco conducts certain of its business operations directly, but other portions of its operations and assets are (and historically were) operated and held in various subsidiary and related entities. However, Dillco and its wholly owned subsidiary Heat Waves are the primary operating entities through which Enservco conducts its operations. The below table provides an overview of the Company’s current subsidiaries.

Name	State of Formation	Ownership	Business
Dillco Fluid Service, Inc. (“Dillco”)	Kansas	100% by Enservco	Oil and natural gas field fluid logistic services primarily in the Hugoton Basin in western Kansas and northwestern Oklahoma.
Aspen Gold Mining Co.	Colorado	100% by Enservco	No active business operations or assets.
Heat Waves Hot Oil Services LLC (“Heat Waves”)	Colorado	100% by Dillco	Oil and natural gas well services, including logistics and stimulation.
HE Services, LLC (“HES”)	Nevada	100% by Heat Waves	No active business operations. Owns construction equipment used by Heat Waves.
Real GC, LLC (“Real GC”)	Colorado	100% by Heat Waves	No active business operations. Owns real property in Garden City, Kansas that is utilized by Heat Waves.
Trinidad Housing, LLC (“Trinidad Housing”)	Colorado	100% by Dillco.	No currently active business operations. Owns real property in Trinidad, Colorado.

## Overview of Business Operations

Enservco (through Heat Waves and Dillco) provides a wide range of services to a diverse group of independent and major oil and natural gas companies. These include well servicing (frac heating, hot oiling, pressure testing and acidizing), fluid services (fresh and salt water hauling, disposal and storage) and well site construction services. These services play a fundamental role in establishing and maintaining a well throughout its productive life. The Company's operations are currently concentrated in domestic, onshore oil and natural gas producing regions in southern Kansas, northwestern Oklahoma, northeastern Utah, northern New Mexico, southern Wyoming, northwestern West Virginia and all of Colorado and southwestern Pennsylvania. Enservco is currently exploring opportunities, based on customer needs, to provide services in the Bakken Shale basin in North Dakota and to expand its operations in the Marcellus Shale formation in northeastern Pennsylvania and in the Niobrara Basin in northern Colorado and Wyoming.

Management believes that Enservco is strategically positioned with its ability to provide its services to a large customer base in key oil and natural gas basins in the United States. Management is optimistic that as a result of the significant expenditures the Company has made in new equipment in combination with the benefits that may be realized from the Merger Transaction, that the Company will be able to further grow and develop its business operations.

Historically, the Company focused its growth strategy on strategic acquisitions of operating companies and then expanding operations through additional capital investment consisting of the acquisition and fabrication of property and equipment. That strategy also included expanding the Company's geographical footprint as well as expanding the services it provides. These strategies are exemplified by the acquisitions of operating entities (described below) and:

- (1) In 2008, 2009 and 2010, Dillco and Heat Waves spent approximately \$7.8 million, \$2.0 million and \$2.2 million (not including capital leases of approximately \$455,000), respectively, for the acquisition and fabrication of property and equipment; and
- (2) To expand its footprint, in mid-2008 Heat Waves moved into the Uintah basin in northwestern Utah and in early 2010 Heat Waves began providing services in the Marcellus Shale natural gas field in southwestern Pennsylvania and West Virginia.

Going forward the Company expects to continue to pursue its growth strategies of exploring additional acquisitions, potentially expanding the geographic areas in which it operates, and diversifying the products and services it provides to customers, as well as making further investments in its assets and equipment.

As noted above, the Company conducts its business operations and holds assets primarily through subsidiary entities. The following describes the operations and assets of Enservco's subsidiaries through which it conducts its business operations.

Dillco. From its inception in 1974, Dillco has focused primarily on providing water hauling/disposal/storage services, well site construction services and frac tank rental to energy companies working in the Hugoton gas field in western Kansas and northwestern Oklahoma. Water hauling/disposal has been the primary source of Dillco's revenue. Dillco currently owns and operates a fleet of water hauling trucks and related assets, including specialized tank trucks, frac tanks, water disposal wells, construction and other related equipment. These assets transport, store and dispose of both fresh and salt water, as well as provide well site construction and maintenance services.



Heat Waves. Heat Waves provides a range of well stimulation/maintenance services to a diverse group of independent and major oil and natural gas companies. The primary services provided are intended to:

- (1) Assist in the fracturing of formations for newly drilled oil and natural gas wells; and
- (2) Help maintain and enhance the production of existing wells throughout their productive life.

These services consist of frac heating, hot oiling and acidizing. Heat Waves also provides some water hauling and well site construction services. Heat Waves' operations are currently in southern Kansas, northwestern Oklahoma, northeastern Utah (Uintah Basin), northern New Mexico, southern and central Wyoming (Niobrara formation), Colorado (D-J Basin), and southwest Pennsylvania/ northwestern West Virginia, (Marcellus Shale). In addition to expanding its current operations in the Niobrara region, Heat Waves is currently exploring opportunities, to provide services in the Northern Marcellus Shale field, the Bakken Shale basin in North Dakota and the Eagle Ford Shale basin in south Texas.

HES. HES owns construction and related equipment that Heat Waves uses in its well site construction and maintenance services. However, HES does not currently engage in any business activities itself. HES also owns a disposal well that Dillco uses for salt water disposal. HES acquired the well from Mr. Herman in March 2010 for \$100,000, which amount was paid in September 2010.

Real GC. Real GC owns land in Garden City, Kansas, which Heat Waves uses for the location of an acid dock facility, truck and inventory storage, and other related purposes.

Trinidad Housing. Trinidad Housing owns land and a building in Trinidad, Colorado that was previously used as a nursing home. The building has been converted for use as rental housing for Heat Waves employees from out of town that were working at the Trinidad facility. There are currently no such employees at the Trinidad facility and the property is actively being marketed for sale.

Disposal Wells. Dillco and HES together own a total of five licensed disposal wells.

#### Products and Services

The Company provides a range of services to owners and operators of oil and natural gas wells. Such services can generally be grouped into the three following categories:

- (1) Fluid management services, i.e., water hauling, frac tank rental and disposal services;
- (2) Well enhancement services, i.e., hot oiling, acidizing, frac hearing and pressure testing, and
- (3) Well site construction services.



Dillco primarily provides fluid management and well site construction services whereas Heat Waves primarily provides well enhancement and construction services. The following map shows the primary areas in which Heat Waves and Dillco currently have active business operations.

The following is a more complete description of the services provided by Enservco through its subsidiaries.

#### Fluid Services.

Water Hauling – Historically water hauling has accounted for approximately 40% of the Company’s revenues on a consolidated basis. Dillco currently owns and operates approximately 30 water hauling trucks equipped with pumps to move water from or into wells, tanks and other storage facilities in order to assist customers in managing their water-cost needs. Each truck has a hauling capacity of up to 130 barrels (each barrel being equal to 42 U.S. gallons). The trucks are used to:

- (1) Transport water to fill frac tanks on well locations,
- (2) Transport contaminated water produced as a by-product of producing wells to disposal wells, including disposal wells that we own and operate,
- (3) Transport drilling and completion fluids to and from well locations, and
- (4) Following completion of fracturing operations, the trucks are used to transport the flow-back produced as a result of the fracturing process from the well site to disposal wells.

Most wells produce residual salt or fresh water in conjunction with the extraction of the oil or natural gas. Dillco's trucks pick up water at the well site and transport it to a disposal well for injection or to other environmentally sound surface recycling facilities. This is regular maintenance work that is done on a periodic basis depending on the volume of water a well produces. Water-cost management is an ongoing need for oil and natural well gas operators throughout the life of a well. Dillco's ability to outperform competitors in this segment is primarily dependent on logistical factors such as the proximity between areas where water is produced or used and where strategic placement and/or access to both disposal wells and recycling facilities. Dillco, Heat Waves and HES own five water disposal wells in Kansas and Oklahoma. It is management's intent to expand Enservco's disposal well holdings and access to recycling facilities.

Typically Dillco and a customer enter into a contract for services after that customer has completed a competitive bidding process. Requirements for minor or incidental water hauling services are usually purchased on a "call out" basis and charged according to a published schedule of rates. Dillco competes for services both on a call out and contractual basis.

Workover, completion, and remedial activities also provide the opportunity for higher operating margins from tank rentals and water hauling services. Drilling and workover jobs typically require water for multiple purposes. Completion and workover procedures often also require large volumes of water for fracturing operations, a process of stimulating a well hydraulically to increase production. All fluids are required to be transported from the well site to an approved disposal facility.

Competitors in the water hauling business are mostly small, regionally focused companies. The level of water hauling activity is comprised of a relatively stable demand for services related to the maintenance of producing wells and a highly variable demand for services used in the drilling and completion of new wells. As a result, the level of domestic onshore drilling activity significantly affects the level of the Company's activity in this service area, and may vary from region to region and from season to season.

Disposal Well Services – The Company owns five disposal wells that allow for the injection of salt water and incidental non-hazardous oil and natural gas wastes.

Our trucks frequently transport fluids to be disposed of into these disposal wells. The Company's disposal wells are located in southwestern Kansas and northwestern Oklahoma in areas in proximity to our customers' producing wells. Most oil and natural gas wells produce varying amounts of water throughout their productive lives. In the states in which we operate, oil and natural gas wastes and water produced from oil and natural gas wells are required by law to be disposed of in authorized facilities, including permitted water disposal wells. These disposal wells are licensed by state authorities pursuant to guidelines and regulations imposed by the Environmental Protection Agency and the Safe Drinking Water Act and are completed in an environmentally sound manner in permeable formations below the fresh water table.

Frac Tank Rental – Dillco also generates revenues from the rental of frac tanks which can store up to 500 barrels of water and are used by oilfield operators to store fluids at the well site, including fresh water, salt water, and acid for frac jobs, flowback, temporary production and mud storage. Dillco transports the tanks on its trucks to well locations that are usually within a 30 mile radius of its nearest yard but can range from just a couple of miles up to as many as 200 miles. Frac tanks are used during all phases of the life of a producing well. Dillco generally rents frac tanks at daily rates and charges hourly rates for the transportation of the tanks to and from the well site.



## Well Enhancement Services.

Well enhancement services consist of frac heating, acidizing, hot oiling services, and pressure testing. These services are provided primarily by Heat Waves which currently utilizes a fleet of approximately 100 custom designed trucks and other related equipment. Heat Waves' operations are currently in southern Kansas, northwestern Oklahoma, northern New Mexico, southern Wyoming (Niobrara), Colorado (D-J Basin), northeastern Utah (Uintah Basin) and southwestern Pennsylvania/northwestern West Virginia (Marcellus Shale). Heat Waves is currently exploring opportunities, based on customer needs, to expand its operations in the Niobrara formation and to begin providing services in the Bakken Shale basin in North Dakota. Well enhancement services accounted for approximately 55% of the Company's total revenues for its 2010 fiscal year on a consolidated basis.

Frac Heating - Fracturing services are intended to enhance the production from oil and natural gas wells where the natural flow has been restricted by underground formations through the creation of conductive flowpaths to enable the hydrocarbons to reach the wellbore. The fracturing process consists of pumping a fluid slurry, which largely consists of fresh water and a "proppant" (explained below), into a cased well at sufficient pressure to fracture (i.e. create conductive flowpaths) the producing formation. Sand, bauxite or synthetic proppants are suspended in the fracturing fluid slurry and are pumped into the well under great pressure to fracture the formation. To ensure these solutions are properly mixed (gel frac) or that plain water (used in slick water fracs) can flow freely, the water frequently needs to be heated to a sufficient temperature as determined by the well owner/operator. Heat Waves owns and operates 15 frac heaters designed to heat large amounts of water stored in reservoirs or frac tanks.

Acidizing - Acidizing is most often used for any of three functions:

Increasing permeability throughout the formation,

Cleaning up formation damage near the wellbore caused by drilling, and

For removing buildup of materials restricting the flow in the formation or through perforations in the well casing.

Acidizing entails pumping large volumes of specially formulated acids and/or chemicals into a well to dissolve materials blocking the flow of the oil or natural gas. The acid is pumped into the well under pressure and allowed time to react. The spent fluids are then flowed or swabbed out of the well, after which the well is put back into production.

Heat Waves provides acidizing services by utilizing its fleet of 5 mobile acid transport and pumping trucks. For most customers, Heat Waves supplies the acid solution and also pumps that solution into a given well. There are customers who provide their own solutions and hire Heat Waves to pump the solution.

Hot Oil Services – Hot oil services involve the circulation of a heated fluid, typically oil, to dissolve or dislodge paraffin or other hydrocarbon deposits from the tubing of a producing oil or natural gas well. These deposits build up over a period of time from normal production operations, although the rate at which these products build up depends on the chemical character of the oil and natural gas being produced. This is performed by circulating the hot oil down the casing and back up the tubing to remove the deposits from the well bore. Hot oiling is intended to melt the hydrocarbon deposits. Hot oil servicing also includes the heating of oil storage tanks. The heating of storage tanks is done:

- (1) To eliminate water and other soluble waste in the tank for which the operator's revenue is reduced at the refinery;  
and
- (2) Because heated oil flows more efficiently from the tanks to transports taking oil to the refineries in colder weather.

Heat Waves currently has 15 hot oil trucks in its fleet.

Pressure Testing – Pressure testing consist of pumping fluids into new or existing wells or other components of the well system such as flow lines to detect leaks, Hot oil trucks and pressure trucks are used to perform this service.

Construction and Roustabout Services.

Dillco and Heat Waves derive revenue from their fleet of power units which includes dozers, trenchers, motor graders, backhoes and other heavy equipment used in road and well-site construction. Contracts for well site construction services are normally awarded by our customers on the basis of competitive bidding and may range in scope from several days to several weeks in duration. Construction service revenues are directly impacted by the drilling activities of oil and natural gas companies.

Ownership of Company Assets

As described above, Enservco owns and uses a fleet of trucks, frac tanks, disposal wells and other assets to provide its services and products. Substantially all of the equipment and personal property assets owned by Dillco and Heat Waves are subject to a security interest to secure loans made to Dillco and its subsidiary companies (which loans Enservco as the parent corporation has guaranteed).

Historically, some of the equipment utilized by Dillco and Heat Waves was leased from related entities - HNR and HES. Previously HNR and HES were not subsidiary entities of Dillco, but were owned separately by our Chief Executive Officer Mr. Herman and his family. HNR was formed to acquire certain assets utilized primarily by Dillco, and HES was formed to acquire construction equipment leased to Heat Waves. On December 31, 2009 Dillco acquired certain assets from HNR and then in March 2010 HES became a wholly owned subsidiary of Heat Waves.

## Competitive Business Conditions

The markets in which Enservco currently operates are highly competitive. Competition is influenced by such factors as price, capacity, the quality and availability of equipment, availability of work crews, and reputation and experience of the service provider. Enservco believes that an important competitive factor in establishing and maintaining long-term customer relationships is having an experienced, skilled, and well-trained work force that is responsive to our customers' needs. Although we believe customers consider all of these factors, price is often the primary factor in determining which service provider is awarded the work.

The demand for our services fluctuates primarily in relation to the worldwide commodity price (or anticipated price) of oil and natural gas which, in turn, is largely driven by the worldwide supply of, and demand for, oil and natural gas, political events, as well as speculation within the financial markets. Demand and prices are often volatile and difficult to predict and depends on events that are not within our control. Generally, as supply of those commodities decreases and demand increases, service and maintenance requirements increase as oil and natural gas producers drill new wells and attempt to maximize the productivity of their existing wells to take advantage of the higher priced environment. However, in a lower oil and natural gas price environment, as experienced during much of 2009 and into 2010, demand for service and maintenance decreases as oil and natural gas producers decrease their drilling activity and forego or reduce budgeted maintenance expenditures. Due to the amount of production related work performed by the Company (as compared to new drilling) our decrease in revenues in 2009 and 2010 from 2008 was not as severe as service companies whose primary services are related to new well development.

Enservco's competition primarily consists of small regional or local contractors. Enservco attempts to differentiate itself from its competition in large part through its superior equipment and the range and quality of services it has the capability to provide. Enservco invests a significant amount of capital into purchasing, developing, and maintaining a fleet of trucks and other equipment that are critical to the services it provides. Further, Enservco concentrates on providing services to a diverse group of large and small independent oil and natural gas companies. We believe we have been successful using this business model and believe it will enable us to continue to grow our business.

## Dependence on One or a Few Major Customers

Enservco serves numerous major and independent oil and natural gas companies that are active in its core areas of operations. During the fiscal year ended December 31, 2010, only one of the Company's customers accounted for more than 10% of consolidated revenues at approximately 13% (all other customers were less than 7% of revenues, individually). For the year ended December 31, 2009, there were no customers that accounted for 10% or more of the Company's total revenues.

The Company notes for the year ended December 31, 2010, that though there are no other customers that accounted for more than 10% of revenues, the Company's top five customers accounted for approximately 35% of its total revenues. The loss of any one of these customers or a sustained decrease in demand by any of such customers could result in a substantial loss of revenues and could have a material adverse effect on Enservco's results of operations.

While the Company believes its equipment could be redeployed in the current market environment if Dillco and/or Heat Waves lost any material customers, such loss could have an adverse effect on the Company's business until the equipment is redeployed. Except as discussed in the preceding sentences, we believe that the market for Enservco's services is sufficiently diversified that it is not dependent on any single customer or a few major customers.



### Seasonality

Portions of Enservco's operations are impacted by seasonal factors, particularly with regards to its frac water heating and hot oiling services. In regards to frac heating, because customers rely on Heat Waves to heat large amounts of water for use in fracturing formations, demand for this service is much greater in the colder months. Similarly, hot oiling services are in higher demand during the colder months when they are needed for maintenance of existing wells and to heat oil storage tanks.

Acidizing and pressure testing are done primarily during non-winter months.

The hauling of water from producing wells is not as seasonal as our other services since wells produce water whenever they are pumping regardless of weather conditions. Hauling of water for the drilling or fracturing of wells is also not seasonal but dependent on when customers decide to drill or complete wells.

### Raw Materials

Enservco purchases a wide variety of raw materials, parts, and components that are made by other manufacturers and suppliers for our use. Enservco is not dependent on any single source of supply for those parts, supplies or materials. However, there are a limited number of vendors for certain acids and chemicals. Enservco utilizes a limited number of suppliers and service providers available to fabricate and/or construct the trucks and equipment used in its hot oiling, frac heating, and acid related services.

### Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts

Enservco (through Heat Waves and Dillco) enters into agreements with local property owners where its disposal wells are located by which the Company generally agrees to pay those property owners a fixed amount per month plus a percentage of revenues derived from utilizing those wells. The terms of these agreements are separately negotiated with the given property owner, and during its 2010 fiscal year the total amount paid under these various agreements by the Company was immaterial to the Company and its business operations.

The Company has filed for federal registration (through the United States Patent and Trademark Office) of "Enservco" as a trademark.

### Government Regulation

Enservco (as a result of Heat Waves' and Dillco's business operations) is subject to a variety of government regulations ranging from environmental to OSHA to the Department of Transportation. The Company does not believe that it is in material violation of any regulations that would have a significant negative impact on Enservco's operations.



Through the routine course of providing services, Enservco (through Heat Waves and Dillco) handles and stores bulk quantities of hazardous materials. If leaks or spills of hazardous materials handled, transported or stored by us occur, Enservco may be responsible under applicable environmental laws for costs of remediating any damage to the surface or sub-surface (including aquifers). Heat Waves' and Dillco's operations are subject to stringent federal, state and local laws regulating the discharge of materials into the environment or otherwise relating to health and safety or the protection of the environment. Numerous governmental agencies, such as the U.S. Environmental Protection Agency, commonly referred to as the "EPA," issue regulations to implement and enforce these laws, which often require difficult and costly compliance measures. Failure to comply with these laws and regulations may result in the assessment of substantial administrative, civil and criminal penalties, as well as the issuance of injunctions limiting or prohibiting activities. In addition, some laws and regulations relating to the protection of the environment may, in certain circumstances, impose strict liability for environmental contamination, rendering a person liable for environmental damages and cleanup costs without regard to negligence or fault on the part of that person. Strict adherence with these regulatory requirements increases our cost of doing business and consequently affects our profitability. Enservco believes that it is in substantial compliance with current applicable environmental laws and regulations and that continued compliance with existing requirements will not have a material adverse impact on the Company's operations. However, environmental laws and regulations have been subject to frequent changes over the years, and the imposition of more stringent requirements could have a materially adverse effect upon Enservco's capital expenditures, earnings or our competitive position.

The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as "Superfund," imposes liability without regard to fault or the legality of the original conduct, on certain classes of persons who contributed to the release of a "hazardous substance" into the environment. In the course of Enservco's operations (being those of Heat Waves and Dillco), it does not typically generate materials that are considered "hazardous substances." One exception, however, would be spills that occur prior to well treatment materials being circulated down hole. For example, if Heat Waves or Dillco spills acid on a roadway as a result of a vehicle accident in the course of providing well enhancement/stimulation services, or if a tank with acid leaks prior to down hole circulation, the spilled material may be considered a "hazardous substance." In this respect, Enservco may occasionally be considered to "generate" materials that are regulated as hazardous substances and, as a result, may incur CERCLA liability for cleanup costs. Also, claims may be filed for personal injury and property damage allegedly caused by the release of hazardous substances or other pollutants.

Additionally, the Company (through Heat Waves and Dillco) operates facilities that are subject to requirements of the Clean Water Act, as amended, or "CWA," the Safe Drinking Water Act, and analogous state laws that impose restrictions and controls on the discharge of pollutants into navigable waters. Spill prevention, control and counter-measure requirements under the CWA require implementation of measures to help prevent the contamination of navigable waters in the event of a hydrocarbon spill. Regulations in the states in which Enservco owns and operates wells (Kansas and Oklahoma) require us to obtain a permit to operate each of our disposal wells. The applicable regulatory agency may suspend or modify one of our permits if Enservco's well operations are likely to result in pollution of freshwater, substantial violation of permit conditions or applicable rules, or if the well leaks into the environment.

Because Heat Waves' and Dillco's trucks travel over public highways to get to customer's wells, Enservco is subject to the regulations of the Department of Transportation. These regulations are very comprehensive and cover a wide variety of subjects from the maintenance and operation of vehicles to driver qualifications to safety. Violations of these regulations can result in penalties ranging from monetary fines to a restriction on the use of the vehicles. Under regulations effective July 1, 2010, the continued violation of regulations could result in a shutdown of all of the vehicles of either Dillco or Heat Waves. Enservco does not believe it is in significant violation of Department of Transportation regulations at this time that would result in a shutdown of vehicles.



## Employees

As of March 15, 2011, Enservco employed approximately 120 full time employees. Of these employees, 3 are employed by Enservco Corporation, approximately 41 by Dillco, and approximately 76 by Heat Waves.

## ITEM 1A. RISK FACTORS

Enservco's securities are highly speculative and involve a high degree of risk, including among other items the risk factors described below. The below risk factors are intended to generally describe certain risks that could materially affect the Company and its current business operations and activities.

You should carefully consider the risks described below and elsewhere herein in connection with any decision whether to acquire, hold or sell the Company's securities. If any of the contingencies discussed in the following paragraphs or other materially adverse events actually occurs, the business, financial condition and results of operations could be materially and adversely affected. In such case, the trading price of our common stock could decline, and you could lose all or a significant part of your investment.

### Operations Related Risks

Our business depends on domestic spending by the oil and natural gas industry, and our business has been, and may continue to be, adversely affected by industry and financial market conditions that are beyond our control.

We depend on our customers' willingness to make operating and capital expenditures to explore, develop and produce oil and natural gas in the United States. Customers' expectations for lower market prices for oil and natural gas, as well as the availability of capital for operating and capital expenditures, may cause them to curtail spending, thereby reducing demand for our services and equipment. As an example, Enservco believes the weak global economy and decrease in demand for oil and natural gas during much of 2009 significantly contributed to the Company's net loss of approximately \$5.9 million in fiscal 2009. On the other hand, the generally improving economic conditions and increasing activity in the oil and gas industry in late 2010 has likely benefitted Enservco.

Industry conditions are influenced by numerous factors over which Enservco has no control, such as the supply of and demand for oil and natural gas, domestic and worldwide economic conditions, weather conditions, political instability in oil and natural gas producing countries (such as currently occurring in the Middle East), and merger and divestiture activity among oil and natural gas producers. The volatility of the oil and natural gas industry and the consequent impact on exploration and production activity could adversely impact the level of drilling and activity by some of our customers. This reduction may cause a decline in the demand for Enservco's services or adversely affect the price of its services. In addition, reduced discovery rates of new oil and natural gas reserves in Enservco's market areas also may have a negative long-term impact on its business, even in an environment of stronger oil and natural gas prices, to the extent existing production is not replaced and the number of producing wells for Enservco to service declines.

On-going volatility and uncertainty in the global economic environment has caused the oilfield services industry to experience volatility in terms of demand, and the rate at which demand may slow, or return to former levels, is uncertain. At times the recent volatility in prices for oil and natural gas has led many oil and natural gas producers to announce reductions in their capital budgets for certain periods. Limitations on the availability of capital, or higher costs of capital, for financing expenditures may cause these and other oil and natural gas producers to make on-going or additional reductions to capital budgets in the future even if commodity prices increase from current levels. These cuts in spending will curtail drilling programs as well as discretionary spending on well services, which may result in a reduction in the demand for Enservco's services, the rates we can charge and our utilization. In addition, certain of Enservco's customers could become unable to pay their suppliers, including Enservco. Any of these conditions or events could adversely affect our operating results.

If oil and natural gas prices remain volatile it could have an adverse effect on the demand for our services.

The demand for many of our services is primarily determined by current and anticipated oil and natural gas prices, and the related general production spending and level of drilling activity in the areas in which we have operations.

Prices for oil and natural gas historically have been extremely volatile and likely will continue to be volatile. Volatility or weakness in oil and natural gas prices (or the perception that oil and natural gas prices will decrease) affects the spending patterns of our customers and may result in the drilling of fewer new wells or lower production spending on existing wells. This, in turn, could result in lower demand for our services and may cause lower rates and lower utilization of Enservco's well service equipment.

Demand for the majority of our services is substantially dependent on the levels of expenditures by the domestic oil and natural gas industry. Enservco has no influence over its customers' capital expenditures. On-going economic volatility could have a material adverse effect on our financial condition, results of operations and cash flows.

Demand for the majority of our services depends substantially on the level of expenditures by participants in the domestic (United States) oil and natural gas industry for the exploration, development and production of oil and natural gas reserves. These expenditures are sensitive to the industry's view of future economic growth in the United States and elsewhere, and the resulting impact on demand for oil and natural gas. The worldwide deterioration in the financial and credit markets, which began in the second half of 2008, resulted in diminished demand for oil and natural gas and significantly lower oil and natural gas prices during 2009 and at least the first half of 2010. This caused many of our customers to reduce or delay their oil and natural gas exploration and production spending in 2009 and the first half of 2010, which consequently reduced their demand for our services, and exerted downward pressure on the prices that we charged for our services and products. Other worldwide political events may result in higher or lower prices for oil and natural gas and impact the demand for our services.

Furthermore, increasing oil and natural gas prices can lead to increasing costs of exploring for and producing oil and natural gas. The price of drill rigs, pipe, other equipment, fluids, and oil field services and the cost to companies like Enservco of providing those services generally increase with significant increases in oil and natural gas prices. The resulting reduction in cash flows being experienced by our customers during the past years, together with the reduced availability of credit and increased costs of borrowing funds could have significant adverse effects on the financial condition of some of our customers. This could result in project modifications, delays or cancellations, general business disruptions, and delay in, or nonpayment of, amounts that are owed to the Company, which could have a material adverse effect on our financial condition, results of operations and cash flows.

Environmental compliance costs and liabilities could reduce our earnings and cash available for operations.

We are subject to increasingly stringent laws and regulations relating to importation and use of hazardous materials and environmental protection, including laws and regulations governing air emissions, water discharges and waste management. We incur, and expect to continue to incur, capital and operating costs to comply with environmental laws and regulations. The technical requirements of these laws and regulations are becoming increasingly complex, stringent and expensive to implement. These laws may provide for “strict liability” for damages to natural resources or threats to public health and safety. Strict liability can render a party liable for damages without regard to negligence or fault on the part of the party. Some environmental laws provide for joint and several strict liability for remediation of spills and releases of hazardous substances.

The Company uses hazardous substances and wastes in its operations. Accordingly, we