

SMF ENERGY CORP  
Form 10-Q  
February 16, 2010

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

FORM 10-Q

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

For the quarterly period ended December 31, 2009

OR

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

Commission File Number 000-21825

SMF ENERGY CORPORATION

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(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

65-0707824  
(IRS Employer Identification Number)

200 West Cypress Creek Road, Suite 400, Fort Lauderdale, Florida  
(Address of principal executive offices)

33309  
(Zip Code)

(954) 308-4200

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(Registrant's telephone number, including area code)

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

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

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

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

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

As of February 10, 2010 there were 8,557,314 shares of the registrant's common stock outstanding.

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## SMF ENERGY CORPORATION

## FORM 10-Q

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Form 10-Q Part and Item No.

## Part I Financial Information:

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SMF ENERGY CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(in 000's, except share and per share data)

	As of December 31, 2009    June 30, 2009 (Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 49	\$ 123
Accounts receivable, net of allowances of \$766 and \$1,038	15,125	15,878
Inventories, net of reserves of \$93 and \$82	1,933	1,959
Prepaid expenses and other current assets	460	772
<b>Total current assets</b>	<b>17,567</b>	<b>18,732</b>
Property and equipment, net of accumulated depreciation of \$16,070 and \$15,280	7,880	8,569
Identifiable intangible assets, net of accumulated amortization of \$1,612 and \$1,433	1,841	2,019
Goodwill	228	228
Deferred debt costs, net of accumulated amortization of \$617 and \$530	437	503
Other assets	69	67
<b>Total assets</b>	<b>\$ 28,022</b>	<b>\$ 30,118</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Line of credit payable	\$ 6,570	\$ 7,845
Current portion of term loan	1,000	917
Accounts payable	5,327	5,807
Accrued expenses and other liabilities	3,318	3,767
<b>Total current liabilities</b>	<b>16,215</b>	<b>18,336</b>
Long-term liabilities:		
Term loan, net of current portion	3,583	4,083
Promissory note	800	800
Other long-term liabilities	318	370
<b>Total liabilities</b>	<b>20,916</b>	<b>23,589</b>
Contingencies		
Shareholders' equity:		
Preferred stock, \$0.01 par value; 5,000 Series D shares authorized, 598 and 3,228 issued and outstanding, respectively	-	-
Common stock, \$0.01 par value; 50,000,000 shares authorized; 8,557,314 and 7,963,302 issued and outstanding, respectively	86	80
Additional paid-in capital	36,707	36,601
Accumulated deficit	(29,687)	(30,152)
<b>Total shareholders' equity</b>	<b>7,106</b>	<b>6,529</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 28,022</b>	<b>\$ 30,118</b>

The accompanying notes to the condensed consolidated financial statements (unaudited) are an integral part of these condensed consolidated balance sheets.

## SMF ENERGY CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in 000's, except per share data)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2009	2008	2009	2008
Petroleum product sales and service revenues	\$ 40,458	\$ 39,876	\$ 78,583	\$ 112,838
Petroleum product taxes	5,847	5,236	11,408	11,545
Total revenues	46,305	45,112	89,991	124,383
Cost of petroleum product sales and service	37,077	36,584	71,105	103,727
Petroleum product taxes	5,847	5,236	11,408	11,545
Total cost of sales	42,924	41,820	82,513	115,272
Gross profit	3,381	3,292	7,478	9,111
Selling, general and administrative expenses	2,673	3,267	6,512	7,899
Operating income	708	25	966	1,212
Interest expense	(261)	(680)	(491)	(1,363)
Interest and other income	6	3	6	19
Net income (loss) before income taxes	453	(652)	481	(132)
Income tax expense	(8)	(8)	(16)	(16)
Net income (loss)	\$ 445	\$ (660)	\$ 465	\$ (148)
Basic and diluted net income (loss) per share computation:				
Net income (loss)	\$ 445	\$ (660)	\$ 465	\$ (148)
Less: Preferred stock dividends	-	(132)	-	(328)
Net income (loss) attributable to common shareholders	\$ 445	\$ (792)	\$ 465	\$ (476)
Net income (loss) per share attributable to common shareholders:				
Basic	\$ 0.05	\$ (0.24)	\$ 0.06	\$ (0.14)
Diluted	\$ 0.05	\$ (0.24)	\$ 0.05	\$ (0.14)
Weighted average common shares outstanding:				
Basic	8,557	3,320	8,404	3,287
Diluted	8,781	3,320	8,692	3,287

The accompanying notes to the condensed consolidated financial statements (unaudited) are an integral part of these condensed

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consolidated statements of operations (unaudited).



## SMF ENERGY CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in 000's)

	For the Six Months Ended December 31,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 465	\$ (148)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization within:		
Cost of sales	464	584
Selling, general and administrative	636	683
Amortization of deferred debt costs	87	158
Amortization of debt discount	-	20
Amortization of stock-based compensation	164	182
Write-off of unamortized acquisition costs	187	-
Gain from sale of assets	-	(4)
Inventory reserve provision	11	-
Provision for doubtful accounts	43	332
Changes in operating assets and liabilities:		
Decrease in accounts receivable	710	14,836
Decrease in inventories, prepaid expenses and other assets	137	847
Decrease in accounts payable, accrued expenses, and other liabilities	(980)	(5,800)
Net cash provided by operating activities	1,924	11,690
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment, net of disposals	(201)	(193)
Proceeds from sale of equipment	-	56
Decrease in restricted cash	-	91
Net cash used in investing activities	(201)	(46)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	94,364	133,375
Repayments of line of credit	(95,639)	(145,280)
Principal payments on term loan	(417)	-
Proceeds from issuance of promissory notes	-	725
Proceeds from issuance of preferred stock	-	149
Payment of dividends	-	(390)
Debt issuance costs	(21)	(65)
Common stock, preferred stock, and warrants issuance costs	(52)	(22)
Capital lease payments	(32)	(26)
Net cash used in financing activities	(1,797)	(11,534)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(74)</b>	<b>110</b>
CASH AND CASH EQUIVALENTS, beginning of period	123	48

CASH AND CASH EQUIVALENTS, end of period	\$	49	\$	158
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(Continued)

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## SMF ENERGY CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in 000's)

(Continued)

For the Six Months Ended December 31,  
2009 2008

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest	\$ 382	\$ 1,150
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## SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:

Capital leases	\$ 32	\$ 47
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Accrued dividends related to preferred stock	\$ -	\$ 132
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Conversion of promissory notes to common shares	\$ -	\$ 210
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The accompanying notes to the condensed consolidated financial statements (unaudited) are an integral part of these condensed consolidated statements of cash flows (unaudited).

SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. NATURE OF OPERATIONS

SMF Energy Corporation, a Delaware corporation (the “Company”) provides petroleum product distribution services, transportation logistics and emergency response services to the trucking, manufacturing, construction, shipping, utility, energy, chemical, telecommunications, and government services industries. The Company generates its revenues from commercial mobile and bulk fueling; the packaging, distribution and sale of lubricants; integrated out-sourced fuel management; transportation logistics, and emergency response services. The Company’s fleet of custom specialized tank wagons, tractor-trailer transports, box trucks and customized flatbed vehicles delivers diesel fuel and gasoline to customers’ locations on a regularly scheduled or as needed basis, refueling vehicles and equipment, re-supplying fixed-site and temporary bulk storage tanks, and emergency power generation systems; and distributes a wide variety of specialized petroleum products, lubricants and chemicals to its customers.

At December 31, 2009, the Company was conducting operations through 34 service locations in the 11 states of Alabama, California, Florida, Georgia, Louisiana, Mississippi, Nevada, North Carolina, South Carolina, Tennessee and Texas.

2. CONDENSED SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The condensed unaudited consolidated financial statements include the accounts of SMF Energy Corporation and its wholly owned subsidiaries, SMF Services, Inc., H & W Petroleum Company, Inc., and Streicher Realty, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed unaudited consolidated financial statements included herein have been prepared in accordance with the instructions to Form 10-Q, and do not include all the information and footnotes required by generally accepted accounting principles; however, they do include all adjustments of a normal recurring nature that, in the opinion of management, are necessary to present fairly the financial position and results of operations of the Company as of and for the interim periods presented.

Operating results for the three and six months ended December 31, 2009 are not necessarily indicative of the results that may be expected for any subsequent period or the fiscal year ending June 30, 2010. These interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2009, as filed with the United States Securities and Exchange Commission (the “2009 Form 10-K”).

Reverse Stock Split - On September 10, 2009, the Company amended its Certificate of Incorporation to effect a 1-for-4.5 reverse stock split of the Company’s common stock, which became effective on the Nasdaq Capital Market on October 1, 2009. As a result of the reverse stock split, every 4.5 shares of the Company’s issued and outstanding common stock was combined into 1 share of common stock with a par value of \$0.01 per share. The reverse stock split did not change the number of authorized shares of the Company’s common stock, which remains at 50,000,000 authorized shares. No fractional shares were issued in connection with the reverse stock split. If, as a result of the reverse stock split, a stockholder would otherwise hold a fractional share, the number of shares to be received by such stockholder were rounded up to the next highest number of shares. The reverse stock split affected all shares of the Company’s common stock, including common stock underlying stock options, warrants, convertible promissory notes and convertible preferred stock that were outstanding on the effective date. All share and per share information in the accompanying condensed unaudited consolidated financial statements and the notes thereto has been retroactively

adjusted to give effect to the reverse stock split for all periods presented.

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SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Subsequent Events - The Company addressed the disclosure of subsequent events through the date of filing of this Form 10-Q on February 16, 2010.

Fair Value of Financial Instruments - The Company's financial instruments, primarily consisting of cash and cash equivalents, accounts receivable and accounts payable, approximate fair value due to the short term maturity of these instruments. The promissory notes and long-term debt approximate fair value as the borrowing rates currently available to the Company for bank loans and average maturities are similar to those of June 29, 2009, the date in which the promissory notes and long-term debt were recorded.

3. CASH AND CASH EQUIVALENTS

During the six months ended December 31, 2009, the Company paid down \$1.3 million on its line of credit payable. Total cash and cash availability was approximately \$3.0 million and \$2.5 million at December 31, 2009 and June 30, 2009, respectively, and was approximately \$3.6 million on February 10, 2010. Total cash and cash availability includes cash and cash equivalents as presented in the Company's balance sheet and cash available to the Company through its line of credit, described in Note 5 – Line of Credit Payable.

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its cash balances at financial institutions, which at times may exceed federally insured limits. The Federal Deposit Insurance Corporation currently insures balances up to \$250,000. The Company has not experienced any losses in such bank accounts.

4. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period.

## SMF ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Diluted net income (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding, increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Conversion or exercise of the potential common shares is not reflected in diluted earnings per share unless the effect is dilutive. The dilutive effect, if any, of outstanding common share equivalents is reflected in diluted earnings per share by application of the if-converted and the treasury stock method, as applicable. In determining whether outstanding stock options and common stock warrants should be considered for their dilutive effect, the average market price of the common stock for the period has to exceed the exercise price of the outstanding common share equivalent. Diluted net income per share for the three and six-months ended December 31, 2009, was diluted by additional common stock equivalents, adjusted per the reverse stock-split, as follows (in thousands):

	For the Three Months ended December 31, 2009	For the Six Months ended December 31, 2009
Incremental shares due to stock options awarded to employees and directors	2	2
Incremental shares due to preferred stock conversion rights	133	286
Incremental shares due to debt conversion rights	89	-
<b>Total dilutive shares</b>	<b>224</b>	<b>288</b>

Diluted net loss per share for the three and six-months ended December 31, 2008 did not include any common stock equivalents in the computation since the Company incurred net losses in those periods.

Anti-dilutive common stock equivalents outstanding and not included in the computation of diluted earnings per common share consisted of (in thousands):

	For the Three Months ended December 31, 2009	2008	For the Six Months ended December 31, 2009	2008
<b>Stock options</b>				