

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

---

(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

---

(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.

Edgar Filing: SMF ENERGY CORP - Form 10-Q

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.

---

## SMF ENERGY CORPORATION

## FORM 10-Q

## INDEX

Form 10-Q Part and Item No.

## Part I Financial Information:

Item 1.	Condensed Unaudited Consolidated Financial Statements	
	Condensed Consolidated Balance Sheets as of December 31, 2009 <sup>3</sup> (unaudited) and June 30, 2009	
	Condensed Consolidated Statements of Operations (unaudited) for the three and six-months ended December 31, 2009 and 2008	4
	Condensed Consolidated Statements of Cash Flows (unaudited) for the six-months ended December 31, 2009 and 2008	5
	Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	33
Item 4.	Controls and Procedures	34

## Part II Other Information:

Item 1.	Legal Proceedings	35
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3.	Defaults Upon Senior Securities	35
Item 4.	Submission of Matters to a Vote of Security Holders	35
Item 5.	Other Information	35
Item 6.	Exhibits	35
Signatures		36



## 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
Total current assets	17,567	18,732
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
Total assets	\$ 28,022	\$ 30,118
<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
Total current liabilities	16,215	18,336
Long-term liabilities:		
Term loan, net of current portion	3,583	4,083
Promissory note	800	800
Other long-term liabilities	318	370
Total liabilities	20,916	23,589
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)
Total shareholders' equity	7,106	6,529
Total liabilities and shareholders' equity	\$ 28,022	\$ 30,118

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

Edgar Filing: SMF ENERGY CORP - Form 10-Q  
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
--	----	----	----	-----

(Continued)

5

---

## 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
------------------------	----	-----	----	-------

## SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:

Capital leases	\$	32	\$	47
----------------	----	----	----	----

Accrued dividends related to preferred stock	\$	-	\$	132
--	----	---	----	-----

Conversion of promissory notes to common shares	\$	-	\$	210
---	----	---	----	-----

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.

7

---

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		For the Six Months ended December 31, 2008	
	2009	2008	2009	2008
Stock options	418	446	418	446
Common stock warrants	141	166	141	166
Promissory note conversion rights	-	922	89	922
Preferred stock conversion rights	-	1,426	-	1,426
<b>Total common stock equivalents outstanding</b>	<b>559</b>	<b>2,960</b>	<b>648</b>	<b>2,960</b>

The promissory note and preferred stock conversion rights in the three and six months ended December 31, 2008 were associated with financial instruments that were extinguished or converted as of result of a series of transactions involving all of the holders of the Company's debt and preferred equity securities that occurred on June 29, 2009 ("the Recapitalization").





## SMF ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table sets forth the computation of basic and diluted income per share (in thousands, except per share amounts):

	For the Three Months Ended December 31, 2009			For the Six Months Ended December 31, 2009		
	Earnings	Weighted Average Common Shares	Per Share Amount	Earnings	Weighted Average Common Shares	Per Share Amount
Net Income	\$ 445			\$ 465		
Less: Preferred stock dividends	-			-		
Basic net income per share attributable to common shareholders	\$ 445	8,557	\$ 0.05	\$ 465	8,404	\$ 0.06
Effect of dilutive securities:						
Stock options	-	2		-	2	
Preferred stock conversion rights	-	133		-	286	
Debt conversion rights	3	89		-	-	
Diluted net income per share attributable to common shareholders	\$ 448	8,781	\$ 0.05	\$ 465	8,692	\$ 0.05

## 5. LINE OF CREDIT PAYABLE

The Company has a \$25.0 million loan facility, comprised of a three year \$20.0 million asset based lending revolving line of credit coupled with a \$5.0 million, 60 month, fully amortized term loan. The Company's \$20.0 million line of credit has a maturity date of July 1, 2012 and permits the Company to borrow up to 85% of the total amount of eligible accounts receivable and 65% of eligible inventory, both as defined. Outstanding stand by letters of credit reduce the maximum amount available for borrowing. Outstanding borrowings under the line are secured by substantially all Company assets.

Interest is payable monthly based on a LIBOR rate and a pricing matrix and at December 31, 2009, the interest rate for the line of credit was 4.00%. This rate was priced using a minimum LIBOR floor of 0.75%, plus the applicable margin of 3.25%. The applicable margin is determined quarterly based on a predetermined fixed charge coverage ratio pricing matrix with these margins ranging from 3.00% to 3.75%.

As of December 31, 2009 and June 30, 2009, the Company had outstanding borrowings of \$6.6 million and \$7.8 million, respectively, under its line of credit. The line of credit is classified as a current liability in accordance with ASC 470, Debt. Based on eligible receivables and inventories, and letters of credit outstanding at December 31, 2009 and June 30, 2009, the Company had \$2.9 million and \$2.4 million of cash availability under the line of credit, respectively.

The Company's line of credit provides for certain affirmative and negative covenants that may limit the total availability based upon the Company's ability to meet these covenants. At December 31, 2009, the financial covenants included a minimum daily availability of \$250,000, a fixed charge coverage ratio of 1.1 to 1.0, and a capital expenditure limitation for fiscal year 2010 of \$750,000. At December 31, 2009 and June 30, 2009, the Company had a maximum amount of \$1.75 million, on both dates, for which letters of credit could be issued. At December 31, 2009 and June 30, 2009, \$1.5 million and \$1.6 million, respectively, had been issued in letters of credit.

## SMF ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The Company's \$25.0 million loan facility agreement requires the Company to obtain the consent of the lender prior to incurring additional debt, paying any cash dividends or distributions, or entering into mergers, consolidations or sales of assets outside the ordinary course of business. Failure to comply with one or more of the covenants in the future could affect the amount the Company can borrow and thereby adversely affect the Company's liquidity and financial condition. At December 31, 2009, the Company was in compliance with all the requirements of its covenants under the loan facility agreement.

## 6. LONG-TERM DEBT (INCLUDES TERM LOAN AND PROMISSORY NOTES)

Long-term debt consists of the following (in thousands):

	As of	
	December 31, 2009	June 30, 2009
June 2009 Term loan (the "Term Loan"), fully amortized, 60 monthly principal payments of approximately \$83,000 commencing on August 1, 2009; variable interest due monthly, 4.75% at December 31, 2009; secured by substantially all Company assets; effective interest rate of 6.6%. For additional details, see below.	\$ 4,583	\$ 5,000
June 2009 unsecured convertible subordinated promissory note (the "New Unsecured Note") (5.5% interest due semi-annually, January 15 and July 15, beginning January 15, 2011; interest accrued for first 13 months deferred and due on or about August 15, 2010); matures July 1, 2014 in its entirety; effective interest rate of 6.3%. For additional details, see below.	800	800
<b>Total long-term debt</b>	<b>5,383</b>	<b>5,800</b>
<b>Less: current portion</b>	<b>(1,000)</b>	<b>(917)</b>
<b>Long-term debt, net</b>	<b>\$ 4,383</b>	<b>\$ 4,883</b>

On June 29, 2009, as part of the Recapitalization, the Company restructured all of its debt and equity. In connection therewith, the Company and its principal lender, Wachovia Bank, N.A. (the "Bank"), amended the Company's existing \$25.0 million revolving line of credit agreement to provide for a new \$25.0 million loan facility, which included a new \$5.0 million, fully amortized, 60 month term loan (the "Term Loan"). The proceeds of the Term Loan were used to pay down \$4.867 million of the August 2007 Notes and \$125,000 of the September 2008 Notes. The interest on the Term Loan is payable monthly and the interest rate is based on a pricing matrix with margins of 3.75% to 4.50% over the LIBOR lending rate determined by the Company meeting certain EBITDA to fixed charge coverage ratios, as defined. At December 31, 2009, the interest rate was 4.75%.

Also in connection with the Recapitalization, the Company extinguished \$800,000 of the August 2007 Notes through the issuance of a new, 5.5% interest only, unsecured convertible subordinated promissory note in the principal amount of \$800,000 (the "New Unsecured Note"). The New Unsecured Note is subordinated to all other existing debt of the

Company, including any amounts owed now or in the future to the Bank. The holder of the New Unsecured Note entered into a debt subordination agreement (the "Subordination Agreement") with the Company and the Bank, whereby it expressly subordinated its rights under the New Unsecured Note to the Bank.

## SMF ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The principal balance of the New Unsecured Note is due at maturity on July 1, 2014. Subject to the limitations in the Subordination Agreement, interest will be paid semi-annually, except that accrued interest payments for the first thirteen months will be deferred until on or about August 15, 2010. Thereafter, starting January 15, 2011, semi-annual interest payments will be scheduled on or about each January 15th and July 15th. The amounts due under the New Unsecured Note will become due and payable upon the occurrence of customary events of default, provided, however, that the deferral of any payment in accordance with the Subordination Agreement will not constitute an event of default. If permitted under the Subordination Agreement, the Company may pre-pay the New Unsecured Note, in whole or in part, without prepayment penalty or premium.

Twenty-five percent (25%) of the original principal amount of the New Unsecured Note, or \$200,000, may be converted into shares of the Company's Common Stock at \$2.25 per share (the "Conversion Price") at the option of the noteholder. The Conversion Price was adjusted as a result of the October 1, 2009, reverse stock split. The number and kind of securities purchasable upon conversion and the Conversion Price remain subject to additional adjustments for stock dividends, stock splits and other similar events.

## 7. SHAREHOLDERS' EQUITY

The following reflects the change in shareholders' equity for the six months ended December 31, 2009 (in thousands, except share data):

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Series D Shares	Amount	Shares	Amount			
Balance at June 30, 2009	3,228	\$ -	7,963,302	\$ 80	\$ 36,601	\$ (30,152)	\$ 6,529
Net income	-	-	-	-	-	465	465
Conversion of Series D Preferred Stock to common stock	(2,630)	-	594,012	6	(6)	-	-
Recapitalization costs	-	-	-	-	(52)	-	(52)
Stock-based compensation amortization expense	-	-	-	-	164	-	164
Balance at December 31, 2009	598	\$ -	8,557,314	\$ 86	\$ 36,707	\$ (29,687)	\$ 7,106

In July 2009, the Company was informed by two previous noteholders (the "Holders") of the August 2007 Notes that, notwithstanding the terms of their original exchange agreements related to the Recapitalization completed in June 2009, they had intended to exchange more of their August 2007 Notes for shares of common stock than was reflected in their original exchange agreements. Accordingly, in response to a request from the Holders to remedy their mistake, on July 6, 2009, the Company entered into two additional exchange agreements (the "New Exchange Agreements") with the Holders by which the Holders exchanged 824 shares of Series D Preferred Stock for an aggregate of 192,680 shares of the Company's Common Stock based on an aggregate value of \$329,000. The New Exchange Agreements provided the Holders with the terms originally offered in the Recapitalization, including the \$1.71 price per share of Common Stock, rather than the \$1.80 conversion price that would have been available upon a

conversion of the Series D Preferred Stock received in the Recapitalization. The \$1.71 price used in the New Exchange Agreements was not less than the closing bid price for the Common Stock on the Nasdaq Capital Market on the last trading day preceding the July 6, 2009 New Exchange Agreements. The issuance of the additional 36,997 shares resulted in a non-cash inducement on extinguishment of convertible notes of \$166,000 which was recorded in the financial statements for the year ended June 30, 2009. All share and price per share amounts discussed above have been adjusted to reflect the reverse stock split of October 1, 2009.

In September 2009, some of the holders of the Series D Preferred Stock converted an aggregate of 1,806 shares into 401,332 shares of Common Stock for an aggregate value of \$722,000. Since this is an exchange of an equity instrument into another equity instrument, the net impact to shareholders' equity is zero, with a decrease of \$6,000 in Additional Paid-in Capital and an equal increase to Common Stock reflecting the par value of the issued common shares. The share amounts discussed above have been adjusted to reflect the reverse stock split of October 1, 2009.

SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Employee Stock Options

In December 2009, the Company's shareholders approved the Board of Directors' adoption of a new equity incentive plan (the "2009 Plan") with a total of 1,300,000 shares of common stock reserved for issuance under the Plan in the form of stock options, stock appreciation rights, performance stock units or restricted stock. After the 2009 Plan was approved by the shareholders and became effective on December 10, 2009, the Company's Board of Directors resolved that it would make no further grants of stock options under the Company's existing stock option plans, the 2001 Director Stock Option Plan and the 2000 Stock Option Plan (the "Existing Plans").

In September 2009, the exercise prices of all outstanding employee stock options previously granted under the 2000 Stock Option Plan were amended by the Compensation Committee of the Company's Board of Directors to have an exercise price of \$2.48 per share after the reverse stock split, or \$0.55 per share before the reverse stock split (the "Amendments"). The new exercise price of \$2.48 set by the Amendments was, as adjusted for the reverse stock split, \$0.77 above the \$1.71 official closing price on the Nasdaq Capital Market on the trading day immediately preceding the date of the Amendment. The Amendments did not change the vesting schedules or any of the other terms of the respective stock options. As a result of the repricing of the options effected by the Amendments, the Company incurred a non-cash charge of \$93,000 to stock-based compensation amortization expense during the first quarter of fiscal year 2010 and an additional \$5,000 which is being amortized over the remaining vesting period of the related options. This modification affected 31 employees who held 327,614 stock options on June 30, 2009, adjusted to reflect the reverse stock split of October 1, 2009.

8. CONTINGENCIES

The Company and its subsidiaries are from time to time parties to legal proceedings, lawsuits and other claims incident to their business activities. Such matters may include, among other things, assertions of contract breach, claims for indemnity arising in the course of the business and claims by persons whose employment with us has been terminated. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance or recoverable from third parties, or the financial impact with respect to these matters as of December 31, 2009. Therefore no contingency gains or losses have been recorded as of December 31, 2009. However, based on management's knowledge at the time of this filing, management believes that the final resolution of such matters pending at the time of this report, individually and in the aggregate, will not have a material adverse effect upon the Company's consolidated financial position, results of operations or cash flows.

On November 23, 2009, SMF Energy Corporation (the "Company") entered into a confidential settlement agreement (the "Agreement") resolving all claims in the lawsuit entitled, SMF Energy Corporation vs. Financial Accounting Solutions Group, Inc., Mitchel Kramer, Alex Zaldivar and Kramer Professional Staffing, Inc. Pursuant to the Agreement, SMF received a payment of \$1,050,000 during the quarter ended December 31, 2009. The payment was treated as a partial recovery of the professional fees incurred in connection with the lawsuit, with no gain or loss recognized for the settlement. The Company expensed \$463,000 of these expenses during the first six months of the current fiscal year. The recovery of these professional fees and the year to date litigation costs have been recorded as part of the selling, general and administrative expenses in the statement of operations. There was no admission of liability by any of the parties to the Lawsuit on account of any of the various claims, counterclaims or third party claims made in the Lawsuit. All claims made by or against the Company in the Lawsuit were released as part of the Agreement.





SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

On May 26, 2009, the Company filed a Demand for Arbitration with the American Arbitration Association in Broward County, Florida, under which the Company brought claims against various members of the Harkrider family arising out of the Company's October 1, 2005 purchase of H & W Petroleum Company, Inc. ("H & W") from the Harkrider family and H & W's purchase of certain assets of Harkrider Distributing Company, Inc. ("HDC") immediately prior to the Company's purchase of H & W. In that action, Case No. 32 198 Y 00415 09 (the "Arbitration"), the Company and H & W, which is now the Company's wholly owned subsidiary, sought damages for breaches of, and indemnification under, the October 1, 2005, Stock Purchase Agreement between various Harkrider family members and the Company and under the September 29, 2005, Asset Purchase Agreement between HDC and various members of the Harkrider family, on the one hand, and H & W on the other, along with various other claims arising from the transaction. Also on May 26, 2009, H & W filed a second action against various members of the Harkrider family in the District Court in Harris County, Texas, Civil Action No. 2009-32909 (the "Harris County Action"), seeking damages and declaratory relief for various breaches of H & W's lease of its Houston, Texas, facility by H & W's landlord, the Harkrider Family Partnership, and other related claims. On June 24, 2009, the parties to the Arbitration and the Harris County Action agreed that all of the claims brought in the Arbitration would be dismissed and all of those claims would be added to the Harris County Action. On June 29, 2009, in accordance with the stipulation of the parties to consolidate the Arbitration with the Harris County Action, the American Arbitration Association closed the Arbitration. The Harris County Action is currently in the discovery phase and settlement discussions are ongoing with all parties having entered into a standstill agreement until March 15, 2010.

9. RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Codification  
(Accounting Standards Update ("ASU") 2009-01)

In June 2009, the FASB issued the FASB Accounting Standards Codification ("the Codification") as the single source of authoritative nongovernmental GAAP. All existing accounting standard documents, such as FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and other related literature, excluding guidance from the Securities and Exchange Commission ("SEC"), have been superseded by the Codification. All other non-grandfathered, non-SEC accounting literature not included in the Codification has become nonauthoritative. The Codification did not change GAAP, but instead introduced a new structure that combines all authoritative standards into a comprehensive, topically organized online database. The Codification is effective for interim or annual periods ending after September 15, 2009, and impacts the Company's financial statements as all future references to authoritative accounting literature will be referenced in accordance with the Codification. There have been no changes to the content of the Company's financial statements or disclosures as a result of implementing the Codification during the three and six months ended December 31, 2009.

As a result of the Company's implementation of the Codification during the six months ended December 31, 2009, previous references to new accounting standards and literature are no longer applicable. In the current six months financial statements, the Company provides reference to both new and old guidance to assist in understanding the impacts of recently adopted accounting literature, particularly for guidance adopted since the beginning of the current fiscal year.

Fair Value Measurements  
(Included in ASC 825 "Financial Instruments", previously FAS No. 157 "Fair Value Measurements")

In September 2006, the FASB issued FAS Statement No. 157, "Fair Value Measurements" ("FAS No. 157"). This standard provides guidance for using fair value to measure assets and liabilities. Under FAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. In support of this principle, FAS No. 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. Certain aspects of this standard were effective for the financial statements issued for the Company since the beginning of fiscal year 2009. The adoption of FAS No. 157 had no impact on the Company's consolidated financial position, results of operations or cash flows. FASB Staff Position ("FSP") FAS 157-2, "Effective Date of FASB Statement No. 157," issued in February 2008, provided a one-year deferral to fiscal years beginning after November 15, 2008 of the effective date of FAS No. 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed in financial statements at least annually at fair value on a recurring basis. The Company's adoption of the remaining provisions as of July 1, 2009 of FAS No. 157 did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Business Combinations

(Included in ASC 805 “Business Combinations”, previously FAS No. 141R “Business Combinations”)

In December 2007, the FASB issued FAS Statement No. 141 (revised 2007), “Business Combinations” (“FAS No. 141R”), which replaces FAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. In April, 2009, the FASB issued FSP FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies” (“FSP No. 131(R)-1”). This FSP amends and clarifies FAS No. 141R to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FAS No. 141R was effective for the Company beginning July 1, 2009 and was applied prospectively to business combinations completed on or after that date. The adoption of FAS No. 141R resulted in the write-off of \$187,000, in the first quarter of fiscal year 2010, of unamortized acquisition costs as of June 30, 2009, which are no longer capitalized under FAS No. 141R.

Accounting for Convertible Debt Instruments

(Included in ASC 470-20 “Debt – Debt with Conversion and Other Options”, previously FSP APB 14-1 “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”)

In May 2008, the FASB issued FSP APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (“FSP No. 14-1”). This standard clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants. Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP No. 14-1 was effective for the Company beginning July 1, 2009. The standard had no impact on our financial condition, results of operations or cash flows.

Equity Topic 505 – Accounting for Distributions to Shareholders with Components of Stock and Cash a Consensus of the FASB Emerging Issues Task Force

In January 2010, the FASB issued the FASB Accounting Standards Update No. 2010-01, “Equity Topic 505 – Accounting for Distributions to Shareholders with Components of Stock and Cash a Consensus of the FASB Emerging Issues Task Force” (“ASU No. 2010-01”). The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). ASU No. 2010-01 was effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this update in the second quarter of fiscal 2010 did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward Looking Statements

This report, including but not limited to this Item 2 and the footnotes to the financial statements in Item 1, contains "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements concern expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," or similar expressions are generally considered to be forward-looking statements.

The forward-looking statements include, but are not limited, to the following:

- Our beliefs regarding our position in the market for commercial mobile fueling and bulk fueling; lubricant and chemical packaging, distribution and sales; integrated out-sourced fuel management services; and transportation logistics;
- Our strategies, plan, objectives and expectations concerning our future operations, cash flows, margins, revenues, profitability, liquidity and capital resources;
- Our efforts to improve operational, financial and management controls and reporting systems and procedures; and
- Our plans to expand and diversify our business through acquisitions of existing companies or their operations and customer bases.

The forward-looking statements reflect our current view about future events and are subject to risks, uncertainties and assumptions. A number of important factors may affect our actual results and could cause them to differ significantly from those expressed in any forward-looking statement. In addition to the Risk Factors included in Part I, Item 1A, of 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 inaccuracy of any of the following assumptions could prevent us from achieving our goals, and cause the assumptions underlying the forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements:

- The avoidance of unanticipated net losses;
- The avoidance of adverse consequences relating to our outstanding debt;
- Our continuing ability to pay interest and principal on our debt instruments, and to pay our accounts payable and other liabilities when due;
- Our continuing ability to comply with financial covenants contained in our debt agreements and to replace, extend or refinance the debts evidenced by those agreements as they mature;
- Our continuing ability to obtain all necessary waivers of covenant violations, if any, in our debt agreements;
  - The avoidance of significant provisions for bad debt reserves on our accounts receivable;
  - The continuing demand for our products and services at competitive prices and acceptable margins;

- The avoidance of negative customer reactions to new or existing marketing strategies;
- The avoidance of significant inventory reserves for slow moving products;

- Our continuing ability to acquire sufficient trade credit from fuel and lubricants suppliers and other vendors;
- The successful integration of acquired companies and/or organic geographic expansion into our existing operations, and enhancing the profitability of the integrated businesses or new markets;
- The successful execution of our acquisition and diversification strategy, including the availability of sufficient capital to acquire additional businesses and to support the infrastructure requirements of a larger combined company;
  - The success in responding to competition from other providers of similar services; and
- The avoidance of a substantial adverse impact from recent generally negative economic and market conditions.

## OUR BUSINESS

We are a supplier of specialized transportation and distribution services for petroleum products and chemicals. We provide commercial mobile and bulk fueling, lubricant and chemical distribution, emergency response services and transportation logistics to the trucking, manufacturing, construction, shipping, utility, energy, chemical, telecommunications and government services industries. 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.

We provide commercial mobile and bulk fueling, integrated out-sourced fuel management, packaging, distribution and sale of lubricants and chemicals, transportation logistics, and emergency response services. Our specialized equipment fleet delivers diesel fuel and gasoline to customer locations on a regularly scheduled or as needed basis, refueling vehicles and equipment, re-supplying bulk storage tanks, and providing fuel for emergency power generation systems. Our fleet also handles the movement of customer equipment and storage tanks we provide for use by our customers. We also distribute a wide variety of specialized petroleum products, lubricants and chemicals to our customers in Texas and in certain other markets.

We compete with several large and numerous small distributors, jobbers and other companies offering services and products in the same markets in which we operate. We believe that the industry and these markets offer us opportunities for consolidation, as customers increasingly demand one-stop shopping for their petroleum based needs and seek reliable supply deliveries particularly to prevent business interruptions during emergencies. We believe that certain factors, such as our ability to provide a range of services and petroleum based products and services, create advantages for us when compared to our competitors.

An objective of our business strategy is to become the leading “single source” provider of petroleum products and services in the markets we currently operate in, as well as expanding into additional contiguous markets. To achieve this objective we plan to focus on increasing revenues in our core operations and in expanding through selective acquisitions.

## OVERVIEW

During the first half of fiscal year 2010, as we expected, we generated positive financial performance in both our first and second fiscal quarters yielding operating profit, bottom line net income, positive EBITDA and cash contribution after our fixed charges<sup>1</sup>.





During the second quarter of fiscal 2010, we continued to grow our business organically by completing an expansion into three new markets including Knoxville, TN, Spartanburg, SC, and North Augusta, GA, and of our business in existing North Carolina markets projecting to add 4 million gallons annually from this expansion. During this fiscal year, we have yet to see any recovery of the lost 14% in existing customer demand that we experienced last year when the national economy collapsed. Nevertheless, if and when the anticipated economic recovery reaches the businesses of these customers, we believe that we will be at the forefront of the economic benefits provided, due to the nature of the industries we serve as well as our diversification within those industries, with over 4,000 customers in 34 markets over 11 states contributing to our bottom line performance.

We are currently focused on reinvigorating our long term growth strategy, which includes not only organic growth but also growth via acquisition of other businesses. We have taken steps to position ourselves for such growth through acquisitions, including the stabilization of our existing business, the consistent generation of positive cash contribution and improved financial performance, completion of our enterprise resource management system software and other infrastructure to facilitate rapid and efficient integration of acquired companies, and maintenance of our NASDAQ Capital Markets listing notwithstanding the stock market meltdown of the past 18 months via our October 2009 reverse stock split. We have recently engaged in a series of campaigns to actively stimulate awareness and interest in our Company's common stock via stock promotion, participation in road shows and other investor communications. We believe that the current market capitalization of the Company is far less than the Company's real enterprise value, and are constrained from using our common stock as an accretive component of our acquisition plans at current stock price levels, which could be significantly dilutive. Finally, in December 2009, we also brought closure to the costly FAS litigation whereby we agreed to settle the case and recovered part of the overall professional fees that we incurred.

As discussed in our last quarter overview and described in detail in our June 30, 2009 Form 10-K, we concluded fiscal 2009 with a complex recapitalization of all of our debt and equity securities which strengthened our balance sheet and financial position by lowering our total debt by \$4.5 million, increasing shareholders' equity by \$4.1 million and reducing our debt to equity ratio from approximately 9:1 to 2:1 over the prior year. This June 2009 confluence of transactions (the "Recapitalization") extinguished all of our maturing debt while providing us with a new 5 year term loan and a minimum 3 year bank line of credit, both of which carry significantly lower interest rates than our previous debt instruments. The Recapitalization was expected to reduce our annual cash interest expense by over \$1.0 million, which expectation is being confirmed, based on our results for the first half of fiscal 2010.

Edgar Filing: SMF ENERGY CORP - Form 10-Q

The following table presents certain operating results for the last seven sequential quarters (in thousands, except net margin per gallon):

	For the Three Months ended,						
	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Revenues	\$ 46,305	\$ 43,686	\$ 39,884	\$ 34,982	\$ 45,112	\$ 79,271	\$ 82,036
Gross profit	\$ 3,381	\$ 4,097	\$ 3,539	\$ 3,790	\$ 3,292	\$ 5,819	\$ 4,290
Selling, general and administrative	\$ 2,673	\$ 3,839	\$ 3,401	\$ 3,455	\$ 3,267	\$ 4,632	\$ 3,845
Operating income	\$ 708	\$ 258	\$ 138	\$ 335	\$ 25	\$ 1,187	\$ 445
Interest expense and other income, net	\$ (255)	\$ (230)	\$ (454)	\$ (570)	\$ (677)	\$ (667)	\$ (811)
Non-cash ASC 470-20 (formerly FAS No. 84) inducement on extinguishment 4	\$ -	\$ -	\$ (1,651)	\$ -	\$ -	\$ -	\$ -
Gain on extinguishment of promissory notes	\$ -	\$ -	\$ 27	\$ -	\$ -	\$ -	\$ -
Net income (loss)	\$ 445	\$ 20	\$ (1,948)	\$ (243)	\$ (660)	\$ 512	\$ (366)
Less: Non-cash write-off of unamortized acquisition costs	\$ -	\$ 187	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Non-cash stock options repricing costs	\$ -	\$ 93	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Non-cash ASC 470-20 (formerly FAS No. 84) inducement on extinguishment 4	\$ -	\$ -	\$ 1,651	\$ -	\$ -	\$ -	\$ -
	\$ 445	\$ 300	\$ (297)	\$ (243)	\$ (660)	\$ 512	\$ (366)

Adjusted net  
income (loss)  
before non-cash,  
non-recurring  
charges 5

EBITDA 2	\$	1,289	\$	1,134	\$	876	\$	974	\$	690	\$	1,990	\$	1,154
----------	----	-------	----	-------	----	-----	----	-----	----	-----	----	-------	----	-------