

SMF ENERGY CORP
Form 10-Q
November 15, 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 September 30, 2010

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.

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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 November 10, 2010 there were 8,527,336 shares of the registrant's common stock outstanding.

SMF ENERGY CORPORATION

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SMF ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2010	June 30, 2010
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 77	\$ 115
Accounts receivable, net of allowances of \$970 and \$1,025	16,176	17,530
Inventories, net of reserves of \$89 and \$98	2,051	1,744
Prepaid expenses and other current assets	359	644
Total current assets	18,663	20,033
Property and equipment, net of accumulated depreciation of \$17,441 and \$16,947	6,862	7,226
Identifiable intangible assets, net of accumulated amortization of \$1,880 and \$1,790	1,573	1,662
Goodwill	228	228
Deferred debt costs, net of accumulated amortization of \$209 and \$169	315	355
Other assets	74	74
Total assets	\$ 27,715	\$ 29,578
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of credit payable	\$ 5,742	\$ 6,896
Current portion of term loan	1,000	1,000
Accounts payable	6,358	7,301
Accrued expenses and other liabilities	3,583	3,191
Total current liabilities	16,683	18,388
Long-term liabilities:		
Term loan, net of current portion	2,833	3,083
Promissory notes	800	800
Other long-term liabilities	247	251
Total liabilities	20,563	22,522
Contingencies		
Shareholders' equity:		
Preferred stock, \$0.01 par value; 10,000 Series A shares authorized, 0 issued and outstanding	-	-
Preferred stock, \$0.01 par value; 2,000 Series B shares authorized, 0 issued and outstanding	-	-
Preferred stock, \$0.01 par value; 2,000 Series C shares authorized, 0 issued and outstanding	-	-
Preferred stock, \$0.01 par value; 5,000 Series D shares authorized, 599 issued and outstanding	-	-
Common stock, \$0.01 par value; 50,000,000 shares authorized; 8,594,814 issued and 8,565,667 outstanding and 8,557,314 issued and outstanding, respectively	86	86

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Treasury stock (at cost) 29,147 and 0, respectively	(39)	-
Additional paid-in capital	36,678	36,657
Accumulated deficit	(29,573)	(29,687)
Total shareholders' equity	7,152	7,056
Total liabilities and shareholders' equity	\$ 27,715	\$ 29,578

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

SMF ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in 000's, except per share data)

	Three Months Ended September 30,	
	2010	2009
Petroleum product sales and service revenues	\$ 45,057	\$ 38,125
Petroleum product taxes	6,004	5,561
Total revenues	51,061	43,686
Cost of petroleum product sales and service	41,219	34,028
Petroleum product taxes	6,004	5,561
Total cost of sales	47,223	39,589
Gross profit	3,838	4,097
Selling, general and administrative expenses	3,492	3,839
Operating income	346	258
Interest expense	(223)	(230)
Interest and other income	2	-
Income before income taxes	125	28
Income tax expense	(11)	(8)
Net income	\$ 114	\$ 20
Basic and diluted net income per share computation:		
Net income per share attributable to common shareholders:		
Basic	\$ 0.01	\$ 0.00
Diluted	\$ 0.01	\$ 0.00
Weighted average common shares outstanding:		
Basic	8,549	8,248
Diluted	8,683	8,681

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

SMF ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in 000's)

	Three Months Ended September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 114	\$ 20
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization:		
Cost of sales	266	236
Selling, general and administrative	318	320
Amortization of deferred debt costs	40	42
Amortization of stock-based compensation	21	133
Write-off of unamortized acquisition costs	-	187
Inventory reserve provision (recovery)	(9)	7
Provision for doubtful accounts	(5)	25
Changes in operating assets and liabilities:		
Decrease in accounts receivable	1,359	792
Increase in inventories, prepaid expenses and other assets	(14)	(65)
Decrease in accounts payable and other liabilities	(573)	(930)
Net cash provided by operating activities	1,517	767
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(86)	(42)
Net cash used in investing activities	(86)	(42)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	53,472	45,916
Repayments of line of credit	(54,626)	(46,320)
Principal payments on term loan	(250)	(167)
Repurchase of common stock	(39)	-
Payment of preferred stock dividends	(13)	-
Capital lease payments	(13)	(17)
Net cash used in financing activities	(1,469)	(588)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(38)	137
CASH AND CASH EQUIVALENTS, beginning of period	115	123
CASH AND CASH EQUIVALENTS, end of period	\$ 77	\$ 260

(Continued)

SMF ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in 000's)

(Continued)

Three Months Ended September 30,
2010 2009

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest	\$	220	\$	176
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Cash paid for income tax	\$	40	\$	-
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SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:

Capital leases	\$	45	\$	22
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The accompanying notes to the condensed unaudited financial statements are an integral part of these condensed unaudited consolidated statements of cash flows.

SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

SMF Energy 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.

The Company is a Delaware corporation formed in 2006. In December 2006, the shareholders of Streicher Mobile Fueling, Inc. (“Streicher”), a Florida corporation formed in 1996, approved changing Streicher’s name to SMF Energy Corporation and the reincorporation of Streicher in Delaware by merger into the Company. The merger was effective February 14, 2007.

At September 30, 2010, the Company was conducting operations through 34 service locations in the eleven 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 months ended September 30, 2010 are not necessarily indicative of the results that may be expected for any subsequent period or the fiscal year ending June 30, 2011. 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, 2010, as filed with the United States Securities and Exchange Commission (the “2010 Form 10-K”).

Fair Value of Financial Instruments

The Company carries certain of its assets and liabilities at fair value, measured on a recurring basis, in the accompanying consolidated balance sheets. In fiscal 2010, the Company adopted ASC 825 Financial Instruments which establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into

three broad levels which distinguish between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The level in the fair value hierarchy within which the respective fair value measurement falls is determined based on the lowest level input that is significant to the measurement in its entirety. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities, Level 2 inputs are other than quotable market prices included in Level 1 that are observable for the asset or liability either directly or indirectly through corroboration with observable market data. Level 3 inputs are unobservable inputs for the assets or liabilities that reflect management's own assumptions about the assumptions market participants would use in pricing the asset or liability.

SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. CASH AND CASH EQUIVALENTS

During the first quarter of fiscal 2011, the Company paid down \$1.2 million on its line of credit payable. Total cash and cash availability was approximately \$3.3 million and \$4.6 million at September 30, 2010 and June 30, 2010, respectively and was approximately \$4.3 million on November 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. OUTSTANDING SHARES AND NET INCOME PER SHARE

As of September 30, 2010 there were 8,594,814 issued shares of the Company's common stock of which 29,147 shares were held in treasury, resulting in 8,565,667 outstanding shares. Included in the issued and outstanding shares were 31,500 shares of restricted shares which were issued on September 23, 2010. The weighted average common shares used to calculate basic earnings per share does not include the restricted shares. The restricted shares are evaluated under the treasury method for their dilutive effect. Basic net income per share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is computed by dividing net earnings 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, restricted stock, 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 months ended September 30, 2010 and 2009, was diluted by additional common stock equivalents as follows (in thousands):

For the Three Months ended,
September 30, 2010 September 30, 2009

Incremental shares due to stock options awarded to employees and directors	1	2
Incremental shares due to preferred stock conversion rights	133	431
Total dilutive shares	134	433

SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

	For the Three Months ended,	
	September 30, 2010	September 30, 2009
Stock options	413	410
Common stock warrants	141	141
Promissory note conversion rights	89	89
Restricted shares	32	-
Total common stock equivalents outstanding	675	640

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,					
	September 30, 2010			September 30, 2009		
	Earnings	Weighted Average Common Shares	Per Share Amount	Earnings	Weighted Average Common Shares	Per Share Amount
Basic net income per share attributable to common shareholders	\$ 114	8,549	\$ 0.01	\$ 20	8,248	\$ 0.00
Effect of dilutive securities:						
Stock options	-	1		-		