SMF ENERGY CORP
Form 10-Q
November 13, 2009

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

FORM 10-Q

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

For the quarterly period ended September 30, 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	65-0707824
(State of Incorporation)	(IRS Employer Identification Number)

200 West Cypress Creek Road, Suite 400, Fort Lauderdale, Florida	33309
(Address of principal executive offices)	(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ 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.

Smaller reporting company x 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 x

As of November 10, 2009 there were shares 8,557,314 of the registrant’s common stock outstanding.

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SMF ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2009	June 30, 2009
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 260	$ 123
Accounts receivable, net of allowances of $784 and $1,038	15,061	15,878
Inventories, net of reserves of $89 and $82	2,152	1,959
Prepaid expenses and other current assets	448	772
Total current assets	17,921	18,732
Property and equipment, net of accumulated depreciation of $15,616 and $15,280	8,166	8,569
Identifiable intangible assets, net of accumulated amortization of $1,523 and $1,433	1,930	2,019
Goodwill	228	228
Deferred debt costs, net of accumulated amortization of $572 and $530	476	503
Other assets	68	67
Total assets	$ 28,789	$ 30,118
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of credit payable	$ 7,441	$ 7,845
Current portion of term loan	1,000	917
Accounts payable	5,252	5,807
Accrued expenses and other liabilities	3,473	3,767
Total current liabilities	17,166	18,336
Long-term liabilities:		
Promissory notes	800	800
Term loan, net of current portion	3,833	4,083
Other long-term liabilities	348	370
Total liabilities	22,147	23,589
Contingencies		
Shareholders' equity:		
Preferred stock, $0.01 par value; 5,000 Series D shares authorized, 598 and 3,228 issued and outstanding at September 30, 2009 and June 30, 2009, respectively	-	-
Common stock, $0.01 par value; 50,000,000 shares authorized; 8,557,314 and 7,963,302 issued and outstanding at September 30, 2009 and June 30, 2009, respectively	86	80
Additional paid-in capital	36,688	36,601
Accumulated deficit	(30,132)	(30,152)
Total shareholders' equity	6,642	6,529
Total liabilities and shareholders' equity	$ 28,789	$ 30,118

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

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SMF ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in 000's, except per share data)

	Three Months Ended September 30, 2009	2008
Petroleum product sales and service revenues	$ 38,125	$ 72,962
Petroleum product taxes	5,561	6,309
Total revenues	43,686	79,271
Cost of petroleum product sales and service	34,028	67,143
Petroleum product taxes	5,561	6,309
Total cost of sales	39,589	73,452
Gross profit	4,097	5,819
Selling, general and administrative expenses	3,839	4,632
Operating income	258	1,187
Interest expense	(230)	(683)
Interest and other income	-	16
Income before income taxes	28	520
Income tax expense	(8)	(8)
Net income	$ 20	$ 512
Basic and diluted net income per share computation:		
Net income	$ 20	$ 512
Less: Preferred stock dividends	-	(196)
Net income attributable to common shareholders	$ 20	$ 316
Net income per share attributable to common shareholders:		
Basic	$ 0.00	$ 0.10
Diluted	$ 0.00	$ 0.10
Weighted average common shares outstanding:		
Basic	8,248	3,254
Diluted	8,681	3,254

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, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 20	$ 512
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization:		
Cost of sales	236	342
Selling, general and administrative	320	341
Amortization of deferred debt costs	42	72
Amortization of debt discount	-	10
Amortization of stock-based compensation	133	104
Write off of unamortized acquisition costs	187	-
Gain from sale of assets	-	(4)
Inventory reserve provision (recovery)	7	(16)
Provision for doubtful accounts	25	418
Changes in operating assets and liabilities:		
Decrease in accounts receivable	792	1,541
(Increase) decrease in inventories, prepaid expenses and other assets	(65)	106
(Decrease) in accounts payable and other liabilities	(930)	(379)
Net cash provided by operating activities	767	3,047
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(42)	(153)
Proceeds from sale of equipment	-	91
Decrease in restricted cash	-	56
Net cash used in investing activities	(42)	(6)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	45,916	80,625
Repayments of line of credit	(46,320)	(84,455)
Principal payments on term loan	(167)	-
Proceeds from issuance of promissory notes	-	725
Proceeds from issuance of preferred stock	-	149
Debt issuance costs	-	(33)
Common stock, preferred stock, and warrants issuance costs	-	(37)
Capital lease payments	(17)	(12)
Net cash used in financing activities	(588)	(3,038)
NET INCREASE IN CASH AND CASH EQUIVALENTS	137	3
CASH AND CASH EQUIVALENTS, beginning of period	123	48
CASH AND CASH EQUIVALENTS, end of period	$ 260	$ 51

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SMF ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in 000's)

(Continued)	Three Months Ended September 30, 2009		2008	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	$	176	$	849
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:				
Accrued dividends related to preferred stock	$	-	$	196
Capital leases	$	22	$	32
Conversion of promissory notes to common shares	$	-	$	210

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

At September 30, 2009, the Company was conducting operations through 31 service locations in the eleven states of Alabama, California, Florida, Georgia, Louisiana, Mississippi, Nevada, North Carolina, South Carolina, Tennessee and Texas.

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.

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, 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").

SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 unaudited condensed consolidated financial statements and the notes thereto has been retroactively adjusted to give effect to the reverse stock split for all periods presented. Prior to the reverse stock split the outstanding common shares were 38,498,544 and 35,825,488 at September 30, 2009 and June 30, 2009, respectively.

Subsequent Events - The Company addressed the disclosure of subsequent events through the date of filing of this Form 10Q on November 12, 2009.

Fair Value of Financial Instruments - The Company's financial instruments, primarily consisting of cash and cash equivalents, restricted cash, 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. 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 quarter ended September 30, 2009.

As a result of the Company's implementation of the Codification during the quarter ended September 30, 2009, previous references to new accounting standards and literature are no longer applicable. In the current quarter financial statements, the Company will provide 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.

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SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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, provides 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 of FAS No. 157 did not have an impact on the Company’s consolidated financial position, results of operations or cash flows.

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 is 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.

Noncontrolling Interests
(Included in ASC 810 “Consolidation”, previously FAS No. 160 “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51”)

In December 2007, the FASB issued FAS Statement No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51,” which changes the accounting and reporting for minority interests (“FAS No. 160”). The statement requires minority interests to be recharacterized as noncontrolling interests and reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interests that do not result in a change in control to be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest should be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, should be recorded at fair value with any gain or loss recognized in earnings. FAS No. 160 was effective for the Company beginning July 1, 2009 and applied prospectively, except for the presentation and disclosure requirements, which applied retrospectively. The standard had no impact on our financial condition, results of operations or cash flows.

SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Disclosures about Derivatives and Hedging
(Included in ASC 815 “Derivatives and Hedging”, previously FAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FAS Statement No. 133”)

In March 2008, the FASB issued FAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FAS Statement No. 133” (“FAS No. 161”). This Standard requires enhanced disclosures regarding derivatives and hedging activities, including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for under FAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”; and (c) the effect of derivative instruments and related hedged items on an entity’s financial position, financial performance, and cash flows. FAS No. 161 was effective for the Company beginning July 1, 2009. As FAS No. 161 relates specifically to disclosures, the standard had no impact on our financial condition, results of operations or cash flows.

Determination of the Useful Life of Intangible Assets
(Included in ASC 350-30 “Intangibles – Goodwill and Other – General Intangibles Other than Goodwill”, previously FSP FAS No. 142-3 “Determination of the Useful Lives of Intangible Assets”)

In April 2008, the FASB issued FSP FAS No. 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP No. 142-3”). This standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP No. 142-3 was effective for the Company beginning July 1, 2009. The standard had no impact on our financial condition, results of operations or cash flows.

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.

Interim Disclosures about Financial Instruments
(Included in ASC 825 ‘Financial Instruments”, previously FSP FAS No. 107-1 and APB No. 28-1, “Interim Disclosures About Fair Value of Financial Instruments”)

In April 2009, the FASB issued FSP FAS No. 107-1 and APB No. 28-1, “Interim Disclosures About Fair Value of Financial Instruments”. This FSP amends FAS No. 107, “Disclosures about Fair Value of Financial Instruments”, to require disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements, and also amends APB No. 28, “Interim Financial Reporting”, to require those disclosures in summarized financial information at interim reporting periods. This FSP was effective for the Company beginning July 1, 2009. This FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The adoption of this standard had no impact on our financial condition, results of operations or cash flows.

SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Accounting for Transfers of Financial Assets
(Included in ASC 860 'Transfers and Servicing", previously FAS No. 166, "Accounting for Transfers of Financial Assets, an amendment to FAS No. 140")

In June 2009, the FASB issued FAS Statement No. 166, "Accounting for Transfers of Financial Assets, an amendment to FAS No. 140" ("FAS No. 166"). FAS No. 166 eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets including limiting the circumstances in which a company can derecognize a portion of a financial asset, and requires additional disclosures. FAS No. 166 is effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company has not determined the impact, if any, on its financial statements of this accounting standard.

Consolidation of Variable Interest Entities — Amended
(Included in ASC 810 "Consolidation", FAS No. 167 "Amendments to FASB Interpretation No. 46(R)")

In June 2009, the FASB issued FAS Statement No. 167, "Amendments to FASB Interpretation No. 46(R)" ("FAS No. 167"). FAS No. 167 revises the approach to determine when an entity that is insufficiently capitalized or not controlled through voting rights (referred to as a variable interest entity or VIE) should be consolidated. The new consolidation model for VIEs considers whether the enterprise has the power to direct the activities that most significantly impact the VIE's economic performance and shares in the significant risks and rewards of the entity. FAS No. 167 requires companies to continually reassess their involvement with VIEs to determine if consolidation is appropriate and provide additional disclosures about their involvement with them. FAS No. 167 is effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company has not determined the impact, if any, on its financial statements of this accounting standard.

Fair Value Measurement and Disclosures Topic 820 – Measuring Liabilities at Fair Value

In August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-05 "Fair Value Measurement and Disclosures Topic 820 – Measuring Liabilities at Fair Value", which provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures – Overall, for the fair value measurement of liabilities. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1. A valuation technique that uses: a. The quoted price of the identical liability when traded as an asset b. Quoted prices for similar liabilities or similar liabilities when traded as assets. 2. Another valuation technique that is consistent with the principles of topic 820; two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. The amendments in this Update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendments in this Update also clarify that both a quoted price in an active market for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The Company does not expect the adoption of this update to have a material impact on its consolidated financial position, results of operations or cash flows.

4. CASH AND CASH EQUIVALENTS

During the three months ended September 30, 2009, the Company paid down $404,000 on its line of credit payable. Total cash and cash availability was $2.6 million and $2.5 million at September 30, 2009 and June 30, 2009, respectively, and was approximately $3.1 million on November 10, 2009. 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 6 – 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.

5. NET INCOME PER SHARE

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 net income per share is computed by dividing net income 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 months ended September 30, 2009 and 2008, was diluted by an additional 433,000 and 0 common stock equivalents, adjusted per reverse stock-split, respectively, of which approximately 2,000 is related to stock options awarded to employees and directors, and approximately 431,000 is related to preferred stock conversion rights.

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 earnings per common share consisted of (in thousands):

	September 30, 2009	September 30, 2008
Stock options	410	445
Common stock warrants	141	197
Promissory note conversion rights	89	922
Preferred stock conversion rights	-	1,426
Total common stock equivalents outstanding	640	2,990

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

	Three Months Ended September 30, 2009			Three Months Ended September 30, 2008		
	Earnings	Common Shares	Per Share Amount	Earnings	Common Shares	Per Share Amount
Net Income	$ 20			$ 512		
Less: Preferred stock dividends	-			(196)		
Basic net income per share attributable to common shareholders	$ 20	8,248	$ 0.00	$ 316	3,254	$ 0.10
Effect of dilutive securities:						
Stock options	-	2		-	-	
Preferred stock conversion rights	-	431		-	-	
Diluted net income per share attributable to common shareholders	$ 20	8,681	$ 0.00	$ 316	3,254	$ 0.10

6. LINE OF CREDIT PAYABLE

The Company has a $25.0 million loan facility, comprised of a three year $20.0 million revolver 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 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 pricing matrix agreed upon by the Company and the bank. At September 30, 2009, the interest rate for the line of credit was at LIBOR Floor of 0.75% plus 3.25%, or 4.00%. The applicable margin is determined quarterly based on a matrix with margins of 3.00% to 3.75% over the LIBOR lending rate determined by the Company meeting certain EBITDA to fixed charge coverage ratios, as defined.

SMF ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 and June 30, 2009, the Company had outstanding borrowings of $7.4 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 which requires current liability classification under the revolving credit agreements. Based on eligible receivables and inventories, and letters of credit outstanding at September 30, 2009 and June 30, 2009, the Company had $2.4 million of cash availability under the line of credit on both dates.

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 September 30, 2009, the financial covenants included a minimum daily availability of $750,000, a fixed charge coverage ratio of 1.1 to 1.0, and a capital expenditure limitation for fiscal year 2010 of $250,000. At September 30, 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 September 30, 2009 and June 30, 2009, $1.5 million and $1.6 million, respectively, had been issued in letters of credit.

The Company’s $25.0 million loan facility agreement requires the Company to obtain the consent of the lender prior to incurring additional debt, 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 September 30, 2009, the Company was in compliance with all the requirements of its covenants under the loan facility agreement.

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

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

	September 30, 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 September 30, 2009; secured by substantially all Company assets; effective interest rate of 6.57%. For additional details, see below.	$ 4,833	$ 5,000
June 2009 unsecured convertible subordinated promissory note (the “June 2009 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 6.30%. For additional details, see below.	800	800
Total debt	5,633	5,800
Less: current portion	(1,000)	(917)
Long-term debt, net	$ 4,633	$ 4,883

On June 29, 2009, as a result 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 September 30, 2009, the interest rate was 4.75%.

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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.

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 has been 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.

8. SHAREHOLDERS' EQUITY

The following reflects the change in shareholders' equity for the three months ended September 30, 2009 (in thousands, except share data):

	Preferred Stock Series D		Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance at June 30, 2009	3,228	$ -	7,963,302	$ 80	$ 36,601	$ (30,152)	$ 6,529
Net income	-	-	-	-	-	20	20
Conversion of Series D Preferred Stock to common stock	(2,630)	-	594,012	6	(6)	-	-
Recapitalization Costs	-	-	-	-	(40)	-	(40)
Stock-based compensation expense	-	-	-	-	133	-	133
Balance at September 30, 2009	598	$ -	8,557,314	$ 86	$ 36,688	$ (30,132)	$ 6,642

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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 to them 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 to them upon a conversion of the Series D Preferred Stock that they 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 shareholder’s equity is zero, with a decrease of $6,000 in APIC and an equal increase to Common Stock reflecting the par value of the issued common shares. The shares amount discussed above have been adjusted to reflect the reverse stock split of October 1, 2009.

Employee Stock Options

On September 10, 2009, the exercise prices of all outstanding employee stock options previously granted under the 2000 Plan were amended by the Compensation Committee of the Company’s Board of Directors to have an exercise price of $0.55 per share or $2.48 per share reflecting the reverse stock split (the “Amendment”). The original new exercise price of $0.55 set by the Amendment was $0.17 above the $0.38 official closing price on the Nasdaq Capital Market on the trading day immediately preceding the date of the Amendment. The Amendment 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 by the Amendment, the Company incurred a non-cash charge of $93,000 to compensation 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 of the stock options outstanding on June 30, 2009 adjusted to reflect the reverse stock split of October 1, 2009.

9. 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 September 30, 2009. Therefore no contingency gains or losses have been recorded as of September 30, 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.

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On October 10, 2006, the Company commenced a civil action in Broward County, Florida Circuit Court against Financial Accounting Solutions Group, Inc. (“FAS”), Kramer Professional Staffing, Inc. (“KPS”), and Mitchell Kramer, an officer, director, shareholder and control person of FAS and KPS (“Kramer”), alleging that Kramer, FAS and KPS (collectively, the “Defendants”) induced the Company to engage FAS to provide services with respect to (a) the implementation of certain Information Technology (“IT”) functions; (b) the modernization and expansion of the Company’s accounting and business technology capabilities, and (c) compliance with public company accounting requirements and the Sarbanes-Oxley Act (the “IT Projects”) by making numerous misrepresentations concerning the experience, capabilities and background of FAS and FAS’ personnel. FAS subsequently filed a countersuit in the same court seeking payment of additional fees allegedly due from the Company. The court is jointly administering the countersuit with the Company’s action. The Company amended its complaint to add Alex Zaldivar, the managing director and a principal of FAS, as an additional Defendant and to make new claims for accounting malpractice, negligent IT implementation, negligent training and supervision, negligent placement and breach of fiduciary duty against the Defendants. The amount of damages recoverable from the Defendants in this action will depend on a number of factors, including but not limited to the costs incurred by the Company in completing the IT Projects, the amount of consequential damages suffered by the Company as a result of the delays and poor performance by FAS in implementing the IT projects, potential counterclaims or countersuit by FAS for amounts billed to the Company which the Company has refused to pay, and the assessment by the Company, based on input from the new vendor engaged by the Company to replace FAS, of the estimated costs to complete the IT Projects. The Company believes that, based on all available information, the likelihood of FAS prevailing in any litigation against the Company is remote and the chance of recovery by FAS against the Company is slight. The case is currently in the discovery stage and settlement discussions are ongoing.

By the filing of a Demand for Arbitration with the American Arbitration Association in Broward County, Florida on May 26, 2009, the Company brought claims against various members of the Harkrider family arising out of the 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.

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;