SMF ENERGY CORP
Form 10-K
September 28, 2009

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

FORM 10-K

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

For the fiscal year ended: June 30, 2009

OR

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

For the transition period from ____________________ to ____________________

Commission file number: 0-21825

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

Delaware (State or other jurisdiction of incorporation or organization)	65-0707824 (I.R.S. Employer Identification No.)

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of exchange on which registered
Common Stock, $.01 Par Value	Nasdaq Capital Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
¨ Large accelerated filer ¨Accelerated filer ¨ Non-accelerated filer Smaller reporting company x

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

The aggregate market value of the voting stock held by non-affiliates was $515,497. The aggregate market value was computed by reference to the last sale price of the registrant's Common Stock on the Nasdaq Capital Market on December 31, 2008.

As of September 23, 2009 there were 38,498,544 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain Portions of Registrant's Proxy Statement relating to the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning our expectations, plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, business trends and other information that is not historical information and, in particular, appear under the headings “Management's Discussion and Analysis of Financial Condition and Results of Operations.” The words “could,” “estimate,” “expect,” “anticipate,” “project,” “plan,” “intend,” “believe,” “goal,” “forecast” and variations of such wo expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, management's examination of historical operating trends, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that our expectations, beliefs and projections will result or be achieved.

There may also be factors that are not presently known to us or that we currently consider to be immaterial that may cause our actual results to differ materially from the forward-looking statements. Some of the risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements are described in the section entitled “Risk Factors” in Item 1A, and elsewhere in this Annual Report on Form 10-K. All forward-looking statements and projections attributable to us or persons acting on our behalf apply only as of the date of the particular statement, and are expressly qualified in their entirety by the cautionary statements included in this report and our other filings with the SEC. We undertake no obligation to publicly update or revise forward-looking statements, including any of the projections presented herein, to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

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PART I

Item 1. Business

Overview

We are a leading provider of petroleum product distribution services, transportation logistics and emergency response services to the trucking, manufacturing, construction, shipping, utility, energy, chemical, telecommunication and government services industries. We provide our services and products through 31 service locations in the eleven states of Alabama, California, Florida, Georgia, Louisiana, Mississippi, Nevada, North Carolina, South Carolina, Tennessee and Texas.

The broad range of services we offer our customers includes commercial mobile and bulk fueling; the packaging, distribution and sale of lubricants; integrated out-sourced fuel management; transportation logistics and emergency response services. Our 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 our customers. In addition, our fleet of special duty tractor-trailer units provides heavy haul transportation services over short and long distances to customers requiring the movement of over-sized or over-weight equipment and manufactured products.

We were originally incorporated in Florida in 1996, under the name Streicher Mobile Fueling, Inc. ("Streicher"). SMF Energy Corporation (the "Company"), a Delaware corporation, was formed in 2006 as a wholly-owned subsidiary of Streicher. In December 2006, the shareholders of Streicher approved changing the name of Streicher to SMF Energy Corporation and the reincorporation of Streicher in Delaware by merger into the Company. These actions were effectuated on February 14, 2007 by the merger of Streicher into the Company. Unless indicated otherwise, "the Company", "SMF", "we", "us", and "our" refer to SMF Energy Corporation and its subsidiaries.

Strategy

An objective of our business model is to become the leading "single source" provider of petroleum products and services to our target customers in the eleven states in which we presently have operating locations, as well as expanding into additional markets in the Southeast, Mid-Atlantic, Mid-Continent and West Coast regions of the U.S. We seek to offer our customers a diversified package of quality and reliable petroleum products and service with 24 hour around the clock availability at competitive prices. To achieve this objective we plan to grow organically and through selective acquisitions.

Our organic growth strategy is focused on increasing market share in our existing operating locations and contiguous geographic areas. We seek market share expansion through a concentrated market penetration and sales program offering a broader line of products and services to both existing and prospective customers. We believe that our corporate infrastructure, including our Enterprise Resource Planning ("ERP") operating system, has enabled us to operate more efficiently and to reduce operating costs and administrative expenses. This system has facilitated the consolidation of financial management reporting and analysis functions, improved management controls, and helped us comply with some of the requirements of the Sarbanes-Oxley Act of 2002.

Our acquisition strategy is focused on acquiring companies, assets and business operations that complement or offer diversified opportunities for growth in the markets where we already have an established presence or that permit us to expand into new markets. We believe that carefully selected future acquisitions can provide us with increased market share, volume and margins. In addition, such acquisitions would enhance our operational and administrative efficiencies by helping us achieve greater economies of scale. Our corporate infrastructure and our ERP system are the foundations on which we can build our business and expand; we are now able to more effectively pursue acquisitions.

We evaluate potential acquisitions based on a variety of factors, including:

- market presence;
- growth potential of product and service lines;
- margin contribution;
- impact on our competition;
- customer loyalty and retention;
- commitment of management and other personnel;
- integration efficiencies and controls; and
- transaction financing alternatives, among others.

We expect to fund future acquisitions primarily by raising additional capital. This capital may be in the form of equity, debt or a combination of both. While we expect to be able to satisfy these capital requirements, there is no assurance that we will be able to do so, and any failure to raise needed capital will impede the implementation of our growth strategy.

Products, Services and Operations

Commercial Mobile and Bulk Fueling and Fuel Management Services

We provide commercial mobile and bulk fueling deliveries on a regularly scheduled or as needed basis, refueling vehicles and equipment, and re-supplying bulk storage tanks and emergency power generation systems.

Traditionally, businesses and other entities that operate fleets of vehicles and equipment have met their fueling requirements by fueling vehicles at retail stations or at other third party facilities or by maintaining their own supply of fuel in on-site storage tanks. We believe that the commercial mobile fueling and out-sourced fuel management services we offer provide numerous benefits to our customers, including lower labor and administrative costs associated with fueling vehicles, centralized control and management over fuel inventories, data useful for management and tax reporting, elimination of environmental risks and related costs associated with on-site fuel storage and dispensing facilities, and elimination of security risks associated with off-site fueling by employees. Our commercial mobile fueling solutions include the use of our patented proprietary electronic fuel tracking control system to measure, record and track fuel dispensed to each vehicle and tank fueled at a customer location. This system allows verification of the amount and type of fuel delivered and provides customers with customized fleet fuel data. Depending on the customer application, the benefits of our commercial mobile fueling and out-sourced fuel management services over traditional fueling methods may include:

- Reduced Operating Costs and Increased Labor Productivity. Fleet operators are able to reduce operating costs and lower payroll hours by eliminating the need for their employees to fuel vehicles either on-site or at local retail stations and other third party facilities. Overnight fueling prepares fleet vehicles for operation at the beginning of each workday and increases labor productivity by allowing employees to use their vehicles during time that would otherwise be spent fueling. Vehicle use is maximized since fueling is conducted during non-operating hours. The fuel necessary to operate vehicles is reduced since fueling takes place at customer locations. The administrative burden required to manage fuel programs and monitor vehicle utilization is also reduced.

- Centralized Inventory Control and Management. Our fuel management system provides fleet operators with a central management data source. Web-based comprehensive reports detail, among other things, the location, description, fuel type and daily and weekly fuel consumption of each vehicle or piece of equipment that we fuel. This eliminates customers' need to invest working capital to carry fuel supplies and allows customers to centralize fuel inventory controls as well as track and analyze vehicle movements and fuel consumption for management and fuel tax reporting purposes. We are also able to service and manage fuel delivery to a customer's on-site storage tank, and using our technology we can provide reports detailing fuel dispensed from the tank into each of the customer's vehicles. Our system is specifically designed for use in commercial fueling and is certified for accuracy by The National Conference on Weights and Measures.

- Tax Reporting Benefits. Our fuel management system can track fuel consumption to specific vehicles and fuel tanks, providing tax reporting benefits to customers consuming fuel in uses that are tax-exempt, such as for off-road vehicles, government-owned vehicles and fuel used to operate refrigerator units on vehicles. For these uses, the customers receive reports that provide them with the information required to substantiate tax exemptions.

- Elimination of Expenses and Liabilities of On-site Storage. Fleet operators who previously satisfied their fuel requirements using on-site storage tanks can eliminate the capital and costs relating to installing, equipping and maintaining fuel storage and dispensing facilities, including the cost and price volatility associated with fuel inventories; complying with escalating environmental government regulations; and carrying increasingly expensive insurance. By removing on-site storage tanks and relying on commercial mobile fueling, customers are able to avoid potential liabilities related to both employees and equipment in connection with fuel storage and handling. Customers' expensive and inefficient use of business space and the diminution of property values associated with environmental concerns are also eliminated.

- Lower Risk of Fuel Theft. Fleet operators relying on employees to fuel vehicles, whether at on-site facilities or at retail stations, often experience shrinkage of fuel inventories or excess fuel purchases due to employee fraud. Our fuel management system prevents the risk of employee theft by dispensing fuel only to authorized vehicles. Utilizing our fueling services, rather than allowing employees to purchase fuel at local retail stations, also eliminates employee fraud due to credit card abuse.

- Access to Emergency Fuel Supplies and Security. Emergency preparedness, including fuel availability, is critical to the operation of governmental agencies, utilities, communication companies, delivery services and numerous other fleet operators. We provide access to emergency fuel supplies at times and locations chosen by our customers, allowing them to react more quickly and effectively to emergency situations, such as severe weather conditions and related disasters. Fueling by fleet operators at their own on-site storage facilities, and/or at retail and other third party locations may be limited due to power interruptions, supply outages or access and other natural limitations. In addition, since security concerns of fleet operators to terrorism, hijacking and sabotage are increasing, fueling vehicles at customers' facilities eliminates security risks to the fleet operators' employees and equipment rather than fueling at retail service stations and other third party facilities.

Packaging, Distribution and Sale of Lubricants, Other Petroleum Products and Chemicals

We distribute and sell a wide array of petroleum-based lubricants, including products such as gear oil, engine oil, heavy-duty motor oil, hydraulic oil, transmission oil, specialty high temperature grease and synthetic lubricants, from our Texas facilities. Our operations include the repackaging of lubricants purchased in bulk quantities and the blending of lubricant products to meet specific customer requirements. We also distribute dry cleaning solvents and other chemicals.

Transportation Logistics Services

Some of our customers, particularly those engaged in the construction industry within Texas, require the movement of heavy equipment, such as bulldozers, cranes and road grading equipment. To meet this demand, we provide specialized transportation and logistics services utilizing a fleet of re-configurable tractor-trailer units to provide the delivery of specialized commodities, including heavy haul, over-size and/or over-weight machinery and equipment. These services are primarily supplied in Texas as well as in the Southeast and Southwest regions of the U.S.

Emergency Response Services

We provide fuel supply services to governmental agencies, utilities, communication companies, delivery services and other fleet and equipment operators when emergency situations, such as severe weather conditions and related disasters, create power interruptions, supply outages or access restrictions on our customers. We provide access to emergency fuel supplies at times and locations chosen by our customers, allowing them to react more quickly and effectively to emergency situations. In addition, our emergency generator services program provides customers with ongoing fuel testing, treatment, filtration and top-off services to ensure that generators and other emergency power supply systems are fully fueled and that the fuel is in optimal condition for use at the onset of power outages. We then provide emergency fuel supplies in a series of scheduled deliveries for the duration of power outages based on the consumption and utilization requirements of these generator systems.

Operating Equipment

We operate a fleet of over 200 specialized commercial vehicles, including fueling and lubricant tank wagons, tractor trailer fuel and lubricant transports, lubricant delivery box trucks, flatbed vehicles and special heavy haul tractor-trailer units. Our custom commercial mobile fueling trucks have fuel carrying capacities ranging from 2,800 to 4,500 gallons and are equipped with multi-compartmented tanks. The fuel we deliver is acquired daily at local third-party petroleum terminal storage facilities. Each truck typically services between five and fifteen customer locations per night or day, on specified delivery routes. The driver of each truck also fuels the customer vehicles.

We also own over 800 fuel and lubricant storage tanks with total capacity in excess of 1.7 million gallons. These tanks include bulk storage tanks located at our facilities and portable tanks used for the temporary storage and dispensing of fuels and lubricants at customer job sites. We also deliver portable storage tanks to the customer’s job-site or other locations; and reposition, re-supply and maintain them as required, on a scheduled or on an as needed basis.

Marketing and Customers

We identify and market to potential customers requiring petroleum related services and products within our established service areas. We also pursue the development of new markets by first evaluating the profitability of volume and margin commitments of any potential customers in those new areas. Our primary methods for developing new business are through direct marketing and referrals from existing customers as well as from our own personnel. We evaluate new customers on factors such as type and size of service required, proximity to existing markets, volume commitments, profitability margins and credit worthiness.

Our commercial mobile and bulk fueling and lubricant distribution customers are principally companies operating fleets of vehicles and equipment in a variety of industries including the trucking, manufacturing, construction, shipping, utility, energy, chemical, telecommunication and government services industries. We are usually the exclusive service provider for the fueling of a customer’s entire fleet or a particular location of vehicles and equipment. Our lubricant customers are primarily companies requiring large volumes of specialty industrial oils, motor and gear lubricants and greases that must adhere to rigid technical and performance specifications. In addition, we market and distribute solvents and specialty petroleum products to dry cleaners and industrial customers in Texas and certain other products, such as fire training chemicals, throughout the U.S.

During the years ended June 30, 2009, 2008 and 2007, approximately 10%, 7.3% and 6.7%, respectively, of our total revenues, were derived from fleet fueling services provided to the United States Postal Service, our largest customer. We (including predecessor companies affiliated with our founders) have provided fueling services to the United States Postal service for over 15 years. Although we do have some length of service written contracts with a few of our larger customers, these types of agreements are not customary in the fuel and lubricant distribution industry, and therefore, we do not have written contracts with the majority of our customers. Most of our customers can terminate our services at any time and for any reason and, correspondingly, we can discontinue service to those customers at any time. We may also discontinue service to a customer if changes in service conditions or other factors cause us not to reach our minimum targeted levels of volumes and margins, and we are unable to negotiate a satisfactory arrangement with the customer to reach our minimum financial requirements.

The Company bills for its petroleum and other products and services upon delivery. All sales are final upon delivery. We generally collect from our customers within 30 to 45 days of billing.

Fuel and Lubricant Supply

We purchase the fuel delivered to our customers from multiple suppliers at daily market prices and in certain cases we qualify for discounts. We monitor fuel prices and trends in each of our service markets daily seeking to purchase our supply at the lowest prices and under the most favorable terms. We mitigate commodity price risk by purchasing and delivering fuel supplies daily and by generally utilizing cost-plus pricing when billing customers.

We purchase the majority of our lubricants primarily pursuant to a long-term supply agreement with Chevron who also offers marketing and financing assistance to our customers. Lubricants are distributed and sold in bulk, prepackaged or repackaged by us to meet customer needs. We price lubricant products on a cost plus basis. Traditionally, lubricants inventory was not subject to as significant of a market price volatility as fuel products, however, due to volatile petroleum prices, the prices of lubricants have been impacted.

We purchase chemicals from several key suppliers. Products are delivered to our location to be redistributed to our customers via company owned equipment. Chemical sales are done in truckload quantities, or in containers ranging from 5 gallons to 55 gallons.

Competition

We compete with other distributors of fuels, lubricants, chemicals and other petroleum products, including several large regional distributors and numerous small independent operators. Our mobile fueling operations also compete with retail marketing outlets such as retail stations and other third-party service locations. We believe that the primary competitive factors affecting our market include price, ability to meet complex and technical services needs, dependability, extended credit terms, service locations, and the ability to provide fuel-management tools.

We believe that our principal competitive advantages include:

- our patented proprietary electronic fuel tracking control system;
- our reputation for timely, efficient and reliable delivery of products and services;
- our well trained drivers and support staff;
- our technical knowledge of our products and our customers’ needs; and
- our competitive pricing for products and services as a result of strong business relationships with our principal suppliers.

Intellectual Property

Our patented proprietary fuel tracking and management reporting system is widely used in our commercial mobile fueling operations. We own all patents covering the system, the rights to which are registered with the United States Patent and Trademark Office and expire in the year 2015, unless otherwise extended. We also rely upon a combination of trademark laws and non-disclosure and other contractual arrangements to protect our proprietary rights.

Employees

At June 30, 2009, 2008 and 2007, we employed 248, 280 and 284 employees, of which 240, 267 and 269 were full-time employees, respectively.

Governmental Regulation

Our operations are affected by numerous federal, state and local laws, regulations and ordinances, including those relating to protection of the environment and worker safety. Various federal, state and local agencies have broad powers under these laws, regulations and ordinances. In particular, the operation of our commercial fleet of vehicles is subject to extensive regulation by the U.S. Department of Transportation ("DOT") under the Federal Motor Carrier Safety Act ("FMCSA"), and our transportation of diesel fuel and gasoline is further subject to the Hazardous Materials Transportation Act ("HMTA"). We are subject to regulatory and legislative changes that can affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and the cost of providing, mobile fueling services. In addition, we depend on the supply of diesel fuel and gasoline from the oil and gas industry and are thereby affected by changing taxes, price controls and other laws and regulations generally relating to the oil and gas industry. Our future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations.

The technical requirements of laws and regulations are becoming increasingly expensive, complex and stringent. These laws may impose penalties or sanctions for damages to natural resources or threats to public health and safety. Changing laws and regulations may also expose us to liability for the conduct of, or conditions caused by, others, or even for our own actions that were in compliance with applicable laws when taken. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Certain environmental laws provide for joint and several liabilities for remediation of spills and releases of hazardous substances. In addition, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances, as well as damage to natural resources.

There is no assurance that we will be able to comply with existing and future regulatory requirements without incurring substantial costs or otherwise adversely affecting our operations.

Available Information

More information about the Company can be found at our website, www.mobilefueling.com. This annual report on Form 10-K as well as our quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information are filed with the Securities Exchange Commission ("SEC"). We post these reports on the "Investor Relations" section of our website promptly after we file them with the SEC. Our Code of Business Conduct is also posted on our website. All of these documents are available in print without charge to our shareholders upon request. Information on our website is not incorporated by reference in, and is not a part of, this report on Form 10-K.

All of our filings with the SEC may be reviewed at the SEC's website, www.sec.gov. They may also be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, DC 20549, on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Item 1A. Risk Factors

We are affected by a wide range of risk factors that could materially affect our business, results of operations and financial condition, and could therefore cause operating results to differ materially from those expressed in any forward-looking statements made by or on behalf of us elsewhere in this report. In addition, investors in our common stock and other securities also bear certain risks relating to those securities and the trading market for our common stock. Below are some of the material factors and risks that could affect our results of operations or the value of our securities:

No Assurance of Future Profitability; Losses from Operations; Need for Capital. We incurred net losses in each of the fiscal years ended June 30, 2009 and 2008. In order to generate profits in the future, we need to reduce interest expense, increase the volume of products and services sold at profitable margins, control costs and generate sufficient cash flow to support our working capital and debt service requirements. There is no assurance that we will be able to avoid net losses in the future or that we will be able to raise additional capital on acceptable terms if our capital needs cannot be satisfied by cash flow from operations. During fiscal 2009, we faced a number of challenges that required us to raise additional capital in the face of a general tightening of the credit markets and various Nasdaq listing requirements. While we responded to those challenges by completing a $40 million recapitalization in June 2009 (the “Recapitalization”) that had an immediate reduction of our total debt by $4.5 million, reduced our annual servicing expense for interest and dividends by over $1 million, increased our shareholders’ equity by $4.1 million and reduced our debt to equity ratio from approximately 9 to 1 to 2 to 1 from June 30, 2008 to June 30, 2009, respectively, we may nevertheless face difficulty in the future obtaining necessary capital. In the future, we may need to raise additional capital to fund new acquisitions, the expansion or diversification of existing operations or additional debt repayment. While we believe that, with the new financial strength resulting from the Recapitalization, we will be able to obtain needed capital, there can be no assurance that we will do so or that it can be obtained on terms acceptable to us.

Nasdaq Listing of Our Common Stock. Our common stock currently trades on the Nasdaq Capital Market under the symbol FUEL. While we consider the listing on Nasdaq to be a valuable attribute of our common stock and other securities, there can be no assurance that such listing will continue. During Fiscal 2008, our listing on Nasdaq came into question on two different grounds. On February 19, 2008, we received a letter from Nasdaq stating that we did not comply with the requirement of Nasdaq Marketplace Rule 4310(c)(3) requiring listed companies to have $2,500,000 in stockholders' equity. In response, on February 29, 2008, we issued 4,587 shares of Series A Convertible Preferred Stock for approximately $2.52 million in cash and debt and on March 12, 2008, we issued 1,985 shares of our Series B Convertible Preferred Stock for approximately $1.8 million in debt. These transactions increased our stockholders’ equity by approximately $4.1 million, permitting us to regain compliance with Rule 4310(c)(3). During fiscal 2009, the Company completed a recapitalization of our debt and equity which increased stockholders’ equity to $6.5 million at June 30, 2009, and we therefore continue to be in compliance with the Nasdaq stockholders’ equity requirement. There is no assurance, however, that such compliance will continue indefinitely since any future net operating losses would reduce our stockholders’ equity and could cause us to again be in violation of Rule 4310(c)(3).

In addition, on December 28, 2007, we received notice from Nasdaq that, because the bid price of our common stock had closed below the minimum $1.00 per share requirement of Marketplace Rule 4310(c) for 30 consecutive business days, compliance with the $1.00 bid price requirement was required by June 25, 2008. When the bid price stayed below the minimum after that date, we filed an appeal to a Nasdaq Listing Qualifications Panel to prevent a delisting of our common stock. On September 11, 2008, the Panel granted the extension of time until December 23, 2008. Under the terms of the extension, the Company must have a closing bid price of $1.00 or more for a minimum of ten prior consecutive trading days on or before December 23, 2008, and had to otherwise maintain compliance with all other applicable Nasdaq listing standards. Due to recent extraordinary market conditions, in October 2008, the NASDAQ implemented a temporary suspension of the minimum $1.00 per share requirement of Marketplace Rule 4310(c) which suspension continued through July 31, 2009. As a result, our deadline for reestablishing compliance is now October 15, 2009. In order to do so, our shareholders have approved and our Board of Directors has implemented a 1 for 4.5 reverse stock split that will take effect on October 1, 2009. While this reverse stock split is intended to increase the trading price of the common stock above the $1.00 minimum bid price, there can be no assurance that the market price per post-split share will either exceed or remain in excess of the minimum for the sustained period of time necessary to ensure long term compliance with Nasdaq rules.

Effects of Nasdaq Delisting. It is possible that, notwithstanding the reverse stock split and our June 2009 Recapitalization, our common stock will still be delisted from Nasdaq. If this occurs, we believe that it would trade in the over-the-counter market on the OTC Bulletin Board (the "OTCBB"), which was established for trading the securities of reporting companies that do not meet the Nasdaq listing requirements. Because the OTCBB is generally considered less efficient than Nasdaq, it could be more difficult for an existing shareholder to sell shares of our common stock after a delisting from Nasdaq. On the OTCBB, trading volumes are typically lower, reporting of transactions can be delayed, and coverage of the Company by securities analysts and news media, which is already limited, may be reduced. In turn, these factors could result in lower prices for our common stock or larger "spreads" between the "bid" and "ask" prices quoted by market makers for shares of the Common Stock, either of which could reduce the prices available for sales of our common stock by existing shareholders.

Delisting from Nasdaq could also impair the Company's ability to raise additional capital through equity or debt financing since Nasdaq listed securities are typically viewed as more liquid than securities that are not traded on a national securities exchange. In addition, if delisting does cause lower prices for our common stock, it could then cause an increase in the ownership dilution to shareholders when the Company issues equity securities in financing or other transactions. The price at which we issue shares in such transactions is generally based on or related to the market price of our common stock, so a decline in the market price could result in the need for us to issue a greater number of shares to raise a given amount of funding or to acquire a given dollar value of goods or services.

In addition, if our common stock is not listed on Nasdaq, we may become subject to Rule 15g-9 under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") because our common stock may be classified as a "penny stock" under Exchange Act Rule 3a51-1. That rule imposes additional sales practice requirements on broker-dealers who sell low-priced securities to persons other than established customers and institutional accredited investors. For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. Consequently, the rule may affect the ability of broker-dealers to sell our common stock and may impair the ability of our shareholders to sell their common stock in the secondary market. Moreover, investors may be less interested in purchasing low-priced securities because the brokerage commissions, as a percentage of the total transaction value, tend to be higher for such securities. Also, institutional investors will usually not invest in low-priced securities (other than those which focus on small-capitalization companies or low-priced securities). For these reasons, a classification of our common stock as a "penny stock" under Rule 3a51-1 would probably adversely affect the liquidity and the value of our stock.

Finally, if our common stock was no longer listed on Nasdaq or any other national securities exchange, we could no longer use the SEC's short form registration forms, such as Form S-3, to register shares of our common stock under the Securities Act of 1933 but would have to instead use the longer registration forms, such as Form S-1. While the negative impact of long form registration has been reduced by recent SEC rule changes permitting most purchasers of stock in unregistered offering to freely resell their securities six months after the purchase under Rule 144, long form registration would probably require more time, effort and expense, and may in turn limit the value of our common stock

Price Depreciation After Reverse Stock Split. The long term efficacy of a reverse stock split in maintaining compliance with Nasdaq's minimum bid price requirement is uncertain. While the short-term result of a reverse stock split can be reasonably predicted, the long-term consequences are more difficult to confirm. The price of our common stock is likely to be affected by our performance and by general market and economic conditions that cannot be predicted or evaluated by the Board of Directors at this time. Accordingly, even if the reverse stock split is successful in reestablishing compliance with Nasdaq's minimum bid price requirement and we meet the stockholders' equity and other requirements needed to maintain our Nasdaq listing, there is no assurance that the aggregate market value of our common stock will be greater after a reverse stock split than it would have been without ever effecting a reverse stock split.

Volatility of Trading Market for Our Stock. During the past few years, our stock has sometimes traded in large daily volumes and other times at much lower volumes, in many cases at wide price variances. This volatility, which could make it difficult for shareholders to sell shares at a predictable price or at specific times, is generally due to factors beyond our control. Quarterly and annual operating results, changes in general conditions in the economy, the financial markets or other developments affecting us could also cause the market price of our common stock to fluctuate. The market price of our common stock may be affected by various other factors unrelated to the number of shares outstanding after the reverse stock split, including our future performance and general market conditions.

Acquisition Availability; Integrating Acquisitions. Our future growth strategy involves the acquisition of complementary businesses, such as wholesale fuel or petroleum lubricants marketers and distributors, wholesale fuel and other commercial mobile fueling companies, and transportation logistics services businesses. It is not certain that we will be able to identify or make suitable acquisitions on acceptable terms or that any future acquisitions will be effectively and profitably integrated into our operations. Acquisitions involve numerous risks that could adversely affect our operating results, including timely and cost effective integration of the operations and personnel of the acquired business, potential write downs of acquired assets, retention of key personnel of the acquired business, potential disruption of existing business, maintenance of uniform standards, controls, procedures and policies, additional capital needs, the effect of changes in management on existing business relationships, and profitability and cash flows generally.

Our credit facility with our principal lender also requires the Company to obtain the consent of the financial institution prior to incurring additional debt, or entering into mergers, consolidations or sales of assets.

Growth Dependent Upon Future Expansion; Risks Associated With Expansion into New Markets. While we intend to expand more quickly through acquisitions, our growth will also depend upon the ability to achieve greater penetration in existing markets and to successfully enter new markets in both additional major and secondary metropolitan areas. Such organic expansion will largely be dependent on our ability to demonstrate the benefits of our services and products to potential new customers, successfully establish and operate new locations, hire, train and retain qualified management, operating, marketing and sales personnel, finance acquisitions, capital expenditures and working capital requirements, secure reliable sources of product supply on a timely basis and on commercially acceptable credit terms, and successfully manage growth by effectively supervising operations, controlling costs and maintaining appropriate quality controls. There can be no assurance that we will be able to successfully expand our operations into new markets.

Interest Expense. A substantial portion of our net losses for the fiscal years ended June 30, 2009 and 2008 are attributable to the substantial interest burden borne by the Company, including $2.5 million of interest expense in fiscal 2009 and $3.1 million in 2008. The majority of this interest expense is attributable to interest on our revolving bank debt and our August 2007 senior subordinated secured debt, which was substantially reduced by our June 2009 Recapitalization. If and to the extent that interest rates generally increase or we are otherwise required to bear higher interest rates for our future borrowings, our interest expense could increase, adversely affecting our results of operations and financial condition. Similarly, if we make one or more acquisitions or if we incur additional net losses in the future and are required to borrow funds to fund those acquisitions or offset those losses, the interest on the higher level of debt could have a detrimental effect on our results of operations and financial condition. Additionally, we are exposed to fluctuating interest rates associated with our line of credit.

Need to Maintain Effective Internal Controls. In fiscal 2006, our management identified significant deficiencies related to policies and procedures to ensure accurate and reliable interim and annual consolidated financial statements that, considered together, constituted a material weakness in our internal controls. Even though we have taken the necessary steps to correct the identified material weakness and have not identified any material weakness for fiscal 2009, it is possible that, considering our size, our limited capital resources and our need to continue to expand our business by acquisitions and diversification, we may identify another material weakness in our internal controls in the future. Moreover, even if we do not identify any material weakness or significant deficiencies, our internal controls may not prevent all potential errors or fraud because any control system, no matter how well designed, cannot provide absolute assurance that the objectives of the control system will be achieved.

Dependence on Key Personnel. Our future success will be largely dependent on the continued services and efforts of Richard E. Gathright, our Chief Executive Officer and President, and on those of other key executive personnel. The loss of the services of Mr. Gathright or other executive personnel could have a material adverse effect on our business and prospects. Our success and plans for future growth will also depend on our ability to attract and retain additional qualified management, operating, marketing, sales and financial personnel. There can be no assurance that we will be able to hire or retain such personnel on terms satisfactory to us. We have entered into written employment agreements with Mr. Gathright and certain other key executive personnel. While Mr. Gathright's employment agreement provides for automatic one-year extensions unless either party gives notice of intent not to renew prior to such extension, there is no assurance that Mr. Gathright's services or those of our other executive personnel will continue to be available to us.

Fuel Pricing and Supply Availability; Effect on Profitability. Diesel fuel and gasoline are commodities that are refined and distributed by numerous sources. We purchase the fuel delivered to our customers from multiple suppliers at daily market prices and in some cases qualify for certain discounts. We monitor fuel prices and trends in each of our service markets on a daily basis and seek to purchase our supply at the lowest prices and under the most favorable terms. Commodity price risk is generally mitigated since we purchase and deliver our fuel supply daily and generally utilize cost-plus pricing when billing our customers. If we cannot continue to utilize cost-plus pricing when billing our customers, margins would likely decrease and losses could increase. We have not engaged in derivatives or futures trading to hedge fuel price movements. In addition, diesel fuel and gasoline may be subject to supply interruption due to a number of factors, including natural disasters, refinery and/or pipeline outages and labor disruptions. Limitations on the amount of credit available from suppliers has become a more significant issue for us in light of the tightening of credit available to businesses over the past year. As a result, increasing the availability of short term credit for fuel purchases was one of the principal motivations for the June 2009 Recapitalization, which had an immediate reduction of our total debt by $4.5 million, reduced our annual servicing expense for interest and dividends by over $1 million, increased our shareholders' equity by $4.1 million and reduced our debt to equity ratio from approximately 9 to 1 to 2 to 1 from June 30, 2008 to June 30, 2009, respectively. Irrespective of the reason, any reduction of the availability of fuel supplies could impact our ability to provide mobile fueling, commercial bulk fueling, and emergency response services and would therefore impact our profitability.

Risks Associated with Customer Concentration; Absence of Written Agreements. Although we provide services to many customers, a significant portion of our revenue is generated from a few of our larger customers. Sales to our largest customer, represents 10% of our total revenue in fiscal year 2009. While we have formal, length of service written contracts with some of these larger customers, such agreements are not customary and we do not have them with the majority of our customers. As a result, most of our customers can terminate our services at any time and for any reason, and we can similarly discontinue service to those customers. We may also discontinue service to a customer if changes in the service conditions or other factors cause us not to meet our minimum level of margins and rates, and the pricing or delivery arrangements cannot be re-negotiated. As a result of this customer concentration and the absence of written agreements, our business, results of operations and financial condition could be materially adversely affected if one or more of our larger customers were lost or if we were to experience a high rate of service terminations of our other customers.

Effect of Reduced Fuel Usage. The dramatic increases in fuel prices in fiscal 2008 and through the beginning of fiscal 2009 have caused businesses, including many of our customers, to take steps to reduce the amount of fuel that they consume in their operations by driving fewer miles or, in some cases, by using higher mileage or alternative fuel vehicles. In turn, these reductions have reduced the volumes delivered by us to those customers. Even though fuel prices have decreased, we have not experienced a significant increase in volumes sold, we believe due to the difficult current economic conditions. It is possible that customers' fuel usage will continue to decline, requiring us to obtain additional customers to replace the lost volume. If we cannot replace the lost volume with new customers, our revenues and results of operation will be negatively affected.

Competition. We compete with other service providers, including several large regional providers and numerous small, local independent operators, who provide some or all of the same services that we offer to our customers. In the mobile fueling area, we also compete with retail fuel marketing, since fleet operators have the option of fueling their own equipment at retail stations and at other third-party service locations such as card lock facilities. Our ability to compete is affected by numerous factors, including price, the complexity and technical nature of the services required, delivery dependability, credit terms, the costs incurred for non-mobile fueling alternatives, service locations as well as the type of reporting and invoicing services provided. There can be no assurance that we will be able to continue to compete successfully as a result of these or other factors.

Operating Risks May Not Be Covered by Insurance. Our operations are subject to the operating hazards and risks normally incidental to handling, storing and transporting diesel fuel and gasoline, which are classified as hazardous materials. We maintain insurance policies in amounts and with coverages and deductibles that we believe are reasonable and prudent. There can be no assurance, however, that our insurance will be adequate to protect us from liabilities and expenses that may arise from claims for personal and property damage arising in the ordinary course of business, including business interruption; that we will be able to maintain acceptable levels of insurance; or that insurance will be available at economical prices.

Governmental Regulation. Numerous federal, state and local laws, regulations and ordinances, including those relating to protection of the environment and worker safety, affect our operations. There can be no assurance that we will be able to continue to comply with existing and future regulatory requirements without incurring substantial costs or otherwise adversely affecting our operations.

Changes in Environmental Requirements. We expect to generate future business by converting certain fleet operators, currently utilizing underground fuel storage tanks for their fueling needs, to commercial mobile fueling. The owners of underground storage tanks have been required to remove or retrofit those tanks to comply with technical regulatory requirements pertaining to their construction and operation. If other more economical means of compliance are developed or adopted by owners of underground storage tanks, the opportunity to market our services to these owners may be adversely affected.

Terrorism and Warfare in the Middle East May Adversely Affect the Economy and the Price and Availability of Petroleum Products. Terrorist attacks, as well as the continuing political unrest and warfare in the Middle East, may adversely impact the price and availability of fuel, our results of operations, our ability to raise capital and our future growth. The impact of terrorism on the oil industry in general, and on us in particular, is not known at this time. An act of terror could result in disruptions of crude oil or natural gas supplies and markets, the sources of our products, and our infrastructure facilities or our suppliers could be direct or indirect targets. Terrorist activity may also hinder our ability to transport fuel if the means of supply transportation, such as rail or pipelines, become damaged as a result of an attack. A lower level of economic activity following a terrorist attack could result in a decline in energy consumption, which could adversely affect our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism could also impair our ability to raise capital. Terrorist activity or further instability in the Middle East could also lead to increased volatility in fuel prices, which could adversely affect our business generally.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our corporate headquarters are located in 20,400 square feet of leased office space in Fort Lauderdale, Florida. Our lease for this facility expires on July 31, 2013.

In addition, we own truck yard and office space in Tampa, Florida. We also lease truck yard and office space for 18 locations specified below as of June 30, 2009, primarily under 1 to 5 year leases which include lease renewal options. We believe that our facilities are adequate for our current needs.

Location	Lease Expiration
Bloomington, CA	7/15/2010
Gardena, CA	7/15/2009
Jacksonville, FL	8/31/2015
Orlando, FL	11/30/2009
Port Everglades, FL	5/31/2010
Doraville, GA	8/31/2011
Gonzales, LA	9/30/2009
Charlotte, NC	11/30/2009
Greensboro, NC	5/31/2010
Selma, NC	11/1/2009
Channelview, TX	8/31/2009
Freeport, TX	9/30/2010
Ft. Worth, TX	12/31/2009
Houston, TX	9/30/2010
Lufkin, TX	9/30/2010
Selma, TX	12/31/2013
Elm Mott, TX	12/31/2009
Waxahachie, TX	9/30/2010

We also lease the following facilities on a month to month basis:

Fort Myers, FL

Melbourne, FL

Ellabell, GA

Byram, MS

North Las Vegas, NV

Chattanooga, TN

Buda, TX

Longview, TX

Item 3. Legal Proceedings

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

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 case is currently in the discovery stage, and is tentatively scheduled for a nonbinding mediation session on October 12, 2009. 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.

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.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the security holders, through the solicitation of proxies or otherwise, during the fourth quarter of fiscal year 2009.

PART II

Item 5. Market for Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

SMF Energy Corporation's common stock, par value $.01 ("common stock") has traded in the National Association of Securities Dealers Automated Quotation System ("NASDAQ") Market under the symbol "FUEL", since December 11, 1996, the date of the Company's initial public offering. The following table sets forth, for the periods indicated, the high and low prices for the common stock, as reported by NASDAQ.

	Common Stock			
	High		Low	
Year Ended June 30, 2009				
1st quarter	$	0.71	$	0.25
2nd quarter	$	0.42	$	0.21
3rd quarter	$	0.29	$	0.10
4th quarter	$	0.70	$	0.14
Year Ended June 30, 2008				
1st quarter	$	1.62	$	1.20
2nd quarter	$	1.36	$	0.62
3rd quarter	$	1.03	$	0.40
4th quarter	$	1.03	$	0.53

On June 30, 2009, the closing price of the common stock was $0.37 per share. As of September 10, 2009, there were 71 holders of record of our common stock and over 1,000 beneficial owners of our common stock.

Dividends

We have never declared or paid any dividends on our common stock. The payment of dividends of our common stock, if any, is within the discretion of the Board of Directors and will depend upon our earnings, our capital requirements and financial condition and other relevant factors. The Board of Directors does not intend to declare dividends in the foreseeable future and intends to retain any future earnings for use in our business operations.

While the Company no longer has any shares of its Series A, Series B, or Series C Preferred Stock issued or outstanding as a result of the June 2009 Recapitalization, in accordance with the respective Certificates of Designation for each Series, dividends were payable thereon when, as and if declared by the Board of Directors, but only out of funds that are legally available, in quarterly cash dividends. Also per the Certificates of Designation, the initial dividend rate of eighteen percent (18%) per annum of the sum of the Original Issue Price per share was reduced to twelve percent (12%) in December 2008 because the Company achieved positive Earnings Before Interest, Taxes, Depreciation and Amortization for two consecutive fiscal quarters.

Dividends on the 3,228 outstanding shares of Series D Preferred Stock, which shares were issued in the June 2009 Recapitalization, are payable when, as and if declared by the Board of Directors, but only out of funds that are legally available, in annual cash or equity dividends, at the Company's election, at the rate of 5.5% per annum of the sum of the Original Issue Price per share. Per the Certificate of Designation for the Series D, the first dividend declaration for the outstanding Series D Preferred Stock is expected to be approximately in August 2010 and may, at the Company's election, be paid in shares of the Company's common stock. Subsequent dividends on the Series D are payable in cash except that, under specified circumstances, dividends may be paid in the form of shares of a new series of nonvoting

Preferred Stock, the terms, rights and privileges of which are, other than the voting rights, substantially identical to those of the Series D.

Dividends on any of the Company's Series of Preferred Stock are cumulative from the date of the original issuance of the Preferred Stock. Accumulated unpaid dividends on Preferred Stock do not bear interest.

During fiscal 2008, the Company declared cumulative dividends of $249,000 of which $56,000 was paid during fiscal 2008 and the remainder was paid during fiscal 2009.

During fiscal 2009, the Company declared $577,000 in cumulative dividends on the Series A, Series B, and Series C Preferred Stock, which have been paid or satisfied as of June 30, 2009. On May 5, 2009, the Company entered into an agreement with the holders of the Series A, Series B, and Series C Preferred Stock to satisfy the dividends due for the quarters ended December 31, 2008, and March 31, 2009 through the issuance of unregistered shares of common stock of the Company. For purposes of determining the number of shares to be issued for the unpaid dividends, shares were valued at $0.23 per share, the official closing price on the Nasdaq Stock Market on April 24, 2009, the trading day immediately preceding the April 27, 2009 effective date of the conversion agreements. As a result, the Company issued 1,111,091 shares of common stock to the holders of Preferred Stock in lieu of paying the $256,000 in cash dividends for the quarters ended December 31, 2008, and March 31, 2009.

On June 29, 2009, as part of the Recapitalization, the Company entered into another agreement with the holders of the Series A, Series B, and Series C Preferred Stock to satisfy the dividends due for the quarter ended June 30, 2009 through the issuance of shares of common stock of the Company. For purposes of determining the number of shares to be issued for the unpaid dividends, shares were valued at the negotiated price of $0.38 per share (the official closing price on the Nasdaq Stock Market on the trading day immediately preceding the June 29, 2009 effective date of the conversion agreements was $0.37). As a result, the Company issued 330,519 shares of common stock to the holders of Preferred Stock in lieu of paying the $126,000 in cash dividends for the quarter ended June 30, 2009.

In the June 2009 Recapitalization, the Company redeemed all the outstanding Series A, Series B, and Series C preferred shares through the issuance of an aggregate of 11,047,504 common shares at the negotiated price of $0.38 per share, which was a per share amount lower than the original terms of the securities. As per EITF No. D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock," the Company reported the additional securities issued to the preferred shareholders as a non-cash deemed dividend of $1,746,216, which was a calculation of the difference between the 6,328,000 common shares that would have been issuable under the original conversion rights that existed in the convertible preferred shares and the 11,047,504 common shares issued at $0.38 cents upon the redemption exchange times the market price on the conversion date.

Convertible Promissory Notes

Also in the Recapitalization, the Company extinguished a portion of the August 2007 and the September 2008 Notes ("the Notes") through the issuance of 5,330,658 shares and 1,249,999 shares of Common Stock, respectively, at the negotiated price of $0.38 per share, which was higher than the $0.37 per share closing bid price on the trading day immediately preceding the June 29, 2009 Recapitalization. The original terms of the Notes allowed for a conversion of 50% of the August 2007 Notes and 100% of the September 2008 Notes into common stock. The negotiated issuance price of $0.38 per share in the Recapitalization was based on then current market prices, and it was lower than the original conversion prices of $1.46 per share and $0.65 per share of the August 2007 Notes and the September 2008 Notes, respectively. Since the extinguishment of the Notes through issuance of Common Stock was done at close to current market prices of the Common Stock, the Company issued an aggregate of 4,462,456 more shares than it would have issued for the convertible equivalent under the original terms of the Notes.

Statement of Financial Accounting Standards No. 84, "Induced Conversion of Convertible Debt (as amended)" ("FAS No. 84"), specifies the method of accounting for conversions of convertible debt to equity securities when the debtor induces conversion of the debt by offering additional securities or other consideration to convertible debt holders. In accordance with FAS No. 84, an expense is recognized if and to the extent that "additional consideration is paid to debt holders for the purpose of inducing prompt conversion of the debt to equity securities (sometimes referred to as a convertible debt 'sweetener')." While the Company's purpose in effecting the June 2009 Recapitalization was to effect a complete restructuring of its debt and equity structure via a series of transactions that would have the effect of reducing its outstanding debt and future obligations and there was no intent to induce any conversion of the outstanding debt to common stock, a portion of the exchange of the outstanding carrying value of $9.6 million in convertible debt for an equal aggregate value of cash, common stock and preferred stock is required by FAS No. 84 to be accounted for as an induced conversion of outstanding debt securities. While we believe that the application of FAS No. 84 does not reflect the economic substance of the value exchanged in this portion of the Recapitalization transaction, we have reported the required non-cash charge of approximately $1.65 million for the difference between the number of common shares issued compared to the number of common shares that would have been issued under the original terms of the convertible debt instrument, times the market price on the conversion date.

The Company understands that the accounting interpretation of FAS No. 84 is that an inducement occurs any time additional shares are issued in the extinguishment of convertible debt regardless of the absence of an economic loss or economic intent of the parties to the transaction. As a result, the application of FAS No. 84 to the exchange of existing convertible debt securities for common stock resulted in the recording of a non-cash "inducement" accounting charge of $1.65 million, which was a calculation of the difference between the 2,118,201 common shares that would have been issuable to the applicable note holder under the original conversion rights that existed in the convertible Notes and the 6,580,657 common shares exchanged at $0.38 cents upon the extinguishment. The shares amounts include the impact of the July 6, 2009 transaction as describe in Note 15 – Subsequent Events. This non-cash charge is deemed a financing expense to extinguish the Notes and it is included in the Consolidated Statements of Operations with a corresponding increase in Additional paid-in capital and therefore the net impact has no effect to total Shareholder's Equity.

Equity Compensation Plan Information

The Company's equity compensation plan information required by this item is incorporated by reference from our Definitive Proxy Statement in connection with our 2009 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A no later than 120 days after the end of the fiscal year covered by this report.

Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data

The following table summarizes our selected historical financial information for each of the last five fiscal years. The information presented below has been derived from our audited consolidated financial statements. This table should be read in conjunction with such Consolidated Financial Statements and related notes and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Form 10K.

(in thousands, except net margin per gallon and per share data)

	Year Ended June 30,				
	2009 4	2008 4	2007	2006	2005
Selected Income Statement Data:					
Total revenue	$ 199,249	$ 260,689	$ 229,769	$ 248,699	$ 133,563
Gross profit	$ 16,440	$ 12,912	$ 12,631	$ 12,409	$ 6,588
Selling, general and administrative expense	$ 14,755	$ 14,881	$ 15,836	$ 13,262	$ 6,145
Operating (loss) income	$ 1,685	$ (1,969)	$ (3,205)	$ (853)	$ 443
Interest expense	$ 2,483	$ 3,060	$ 3,384	$ 4,025	$ 1,903
Non-cash FAS 84 Inducement on extinguishment 8	$ 1,651	$ -	$ -	$ -	$ -
(Gain) loss on extinguishment of promissory notes 6	$ (27)	$ 1,749	$ -	$ -	$ -
Net loss	$ (2,339)	$ (6,769)	$ (6,589)	$ (4,878)	$ (1,460)
Less: Non-cash FAS 84 Inducement on extinguishment 8	$ 1,651	$ -	$ -	$ -	$ -
Adjusted net loss before non-cash FAS 84 inducement 9	$ (688)	$ (6,769)	$ (6,589)	$ (4,878)	$ (1,460)
Share Data:					
Net loss	$ (2,339)	$ (6,769)	$ (6,589)	$ (4,878)	$ (1,460)
Less: Preferred stock dividends	(577)	(249)	-	-	-
Less: Non-cash EITF No. D-42 deemed dividends 7	(1,746)	-	-	-	-
Net loss attributable to common shareholders	$ (4,662)	$ (7,018)	$ (6,589)	$ (4,878)	$ (1,460)
Basic and diluted net loss per share attributable to common shareholders	$ (0.31)	$ (0.49)	$ (0.57)	$ (0.50)	$ (0.19)
Adjusted Basic and diluted net loss per share attributable to common shareholders excluding Non-cash FAS 84 inducement and deemed dividends on extinguishment of convertible notes and preferred shares 10	$ (0.08)	$ (0.49)	$ (0.57)	$ (0.50)	$ (0.19)
Basic and diluted weighted average common shares outstanding	15,097	14,467	11,509	9,819	7,857

	As of June 30,				
	2009	2008	2007	2006	2005
Selected Balance Sheet Data:					
Cash and cash equivalents	$ 123	$ 48	$ 987	$ 4,103	$ 4,108
Accounts receivable, net	$ 15,878	$ 30,169	$ 25,442	$ 24,345	$ 14,129
Restricted cash	$ -	$ 69	$ 1,145	$ -	$ -
Line of credit payable	$ 7,845	$ 19,789	$ 17,297	$ 15,612	$ 4,801
Long-term debt (including current portion)	$ 5,800	$ 8,794	$ 10,276	$ 13,136	$ 11,141
Shareholders' equity	$ 6,529	$ 3,052	$ 4,114	$ 5,540	$ 6,838
Total Assets	$ 30,118	$ 46,984	$ 43,925	$ 48,114	$ 30,125
Financial and Statistical Information:					
EBITDA [1]	$ 4,530	$ 1,240	$ 252	$ 1,781	$ 2,278
Net Margin 2	$ 17,517	$ 14,354	$ 14,333	$ 14,076	$ 8,055
Net Margin per gallon (in dollars) 3	$ 0.258	$ 0.194	$ 0.169	$ 0.149	$ 0.121
Total Gallons	67,902	73,871	84,899	94,261	66,427

Non-GAAP Measure Reconciliation, EBITDA — Year Ended June 30,

	2009	2008	2007	2006	2005
Calculation:					
Net loss	$ (2,339)	$ (6,769)	$ (6,589)	$ (4,878)	$ (1,460)
Add back:					
Interest expense 5	2,483	3,060	3,727	4,025	1,903
Income tax expense	32	-	-	-	-
Depreciation and amortization expense:					
Cost of sales and SG&A	2,438	2,696	2,623	2,123	1,835
Stock-based compensation expense	292	504	491	511	-
Non-cash FAS 84 Inducement on extinguishment 8	1,651	-	-	-	-
(Gain) loss on extinguishment of promissory notes 6	(27)	1,749	-	-	-
Subtotal	6,869	8,009	6,841	6,659	3,738
EBITDA	$ 4,530	$ 1,240	$ 252	$ 1,781	$ 2,278

Non-GAAP Measure Reconciliation, Adjusted basic and diluted net loss per share attributable to common shareholders excluding non-cash FAS 84 inducement and non-cash deemed dividends on extinguishment of convertible notes and preferred shares

	Fiscal Year Ended June 30,				
	2009	2008	2007	2006	2005
Net loss	$ (2,339)	$ (6,769)	$ (6,589)	$ (4,878)	$ (1,460)
Preferred stock dividends	(577)	(249)	-	-	-
Non-cash deemed dividends for preferred stock					
Series A, B and C redemption to common stock	(1,746)	-	-	-	-
Net loss attributable to common shareholders	$ (4,662)	$ (7,018)	$ (6,589)	$ (4,878)	$ (1,460)
Less: Non-cash deemed dividends for preferred stock					
Series A, B and C redemption to common stock	1,746	-	-	-	-
Less: Non-cash FAS 84 Inducement on extinguishment	1,651	-	-	-	-
Adjusted net loss attributable to common shareholders	$ (1,265)	$ (7,018)	$ (6,589)	$ (4,878)	$ (1,460)
Adjusted basic and diluted net loss per share attributable to common shareholders excluding non-cash FAS 84 inducement and non-cash deemed dividends on extinguishment of convertible notes and preferred shares	$ (0.08)	$ (0.49)	$ (0.57)	$ (0.50)	$ (0.19)
Basic and diluted net loss per share attributable to common shareholders	$ (0.31)	$ (0.49)	$ (0.57)	$ (0.50)	$ (0.19)
Basic and diluted weighted average common shares outstanding	15,097	14,467	11,509	9,819	7,857

[1] EBITDA is defined as earnings before interest, taxes, depreciation and, amortization expense, a non-GAAP financial measure within the meaning of Regulation G promulgated by the Securities and Exchange Commission. To the extent that gain or loss and the non-cash FAS 84 inducement on extinguishment of convertible notes constitutes the recognition of previously deferred interest or finance cost, it is considered interest expense for the calculation of certain interest expense amounts. We believe that EBITDA provides useful information to investors because it excludes transactions not related to the core cash operating business activities. We believe that excluding these transactions allows investors to meaningfully trend and analyze the performance of our core cash operations.

2 Net margin = Gross profit plus cost of sales depreciation.

3 Net margin per gallon = Net margin divided by total gallons sold.

4 Net loss and EBITDA for the years ended June 30, 2009 and 2008, included a $27,000 gain on extinguishment of convertible notes and $1.7 million loss on extinguishment of convertible notes, respectively.

5 The year ended June 30, 2006 included $472,000 in interest expense to write-off debt discounts and deferred debt costs and a prepayment penalty related to the warrants issued on June 30, 2006, to convert a portion of the August

2003, January 2005, and September 2005 Notes.

6 The year ended June 30, 2009 included a $27,000 gain on extinguishment of convertible notes which consisted of gains of extinguishment of $145,000, and $23,000 to record at fair value of the common stock and the Series D Preferred Stock issued to extinguish a portion of the August 2007 notes and the September 2008 notes, respectively, offset by the write offs of the unamortized debt costs of $118,000 and unamortized debt discounts of $23,000 related to the exchanged notes. The year ended June 30, 2008 included $1.7 million as loss on extinguishment of promissory notes to write-off debt discounts and deferred debt costs, a prepayment penalty and a gain on extinguishment related to the August 2007 refinancing of debt and the exchange of the November 2007 note and a portion of the August 2007 note into Series A and Series B Preferred Stock. To the extent that gain or loss and the non-cash FAS 84 inducement on extinguishment of convertible notes constitutes the recognition of previously deferred interest or finance cost, it is considered interest expense for the calculation of EBITDA and certain interest expense amounts.

7 As a result of the June 2009 Recapitalization, the Company redeemed all the outstanding preferred shares through the issuance of an aggregate of 11,047,504 common shares at the negotiated price of $0.38 per share, which was an amount lower than the original conversion terms of the convertible debt securities. As per EITF No. D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock," the Company reported the additional securities issued to the preferred shareholders as an inducement which resulted in a non-cash deemed dividend of $1,746,216. See Note 4, Recapitalization.

8 Additionally, as a result of the Recapitalization, the Company extinguished a portion of the August 2007 and the September 2008 Notes ("the Notes") through the issuance of 5,330,658 shares and 1,249,999 shares, respectively, at the negotiated price of $0.38 per share, which was greater than the $0.37 per share closing bid price the day prior to the Recapitalization, but lower than the conversion price applicable to the convertible debt instruments, which resulted in the issuance of more shares in the exchange than would have been issued upon a conversion. The practice of accounting in the interpretation of FAS No. 84 is that an inducement occurs any time when additional shares are issued in the extinguishment of convertible debt regardless of the absence of an economic loss or economic intent of the parties to the transaction. Irrespective of the economic reality of the transaction, FAS No. 84 requires the recording of a non-cash "conversion inducement" charge of $1,651,109, based on the difference between the aggregate 2,118,201 common shares issuable to the applicable note holder under the original conversion rights that existed upon a conversion and the 6,580,657 common shares exchanged at $0.38 cents in the transaction that extinguished all of the Notes. This non-cash charge is deemed a financing expense to extinguish the Notes and it is included in the Consolidated Statements of Operations with a corresponding increase in Additional paid-in capital and therefore the net impact has no effect to total Shareholder's Equity. See Note 4 – Recapitalization. To the extent that the non cash FAS 84 inducement on extinguishment of promissory notes constitutes the recognition of a finance cost, it is considered interest expense for the calculation of certain interest expense amounts.

9 Adjusted net loss before non-cash FAS 84 inducement is a non-GAAP measure that excludes the non-cash FAS 84 inducement on extinguishment of convertible notes. We believe that this is a meaningful Non-GAAP representation of the ongoing performance of the operations excluding the effect of a charge that was strictly related to the Recapitalization.

10 Adjusted Basic diluted net loss per share attributable to common shareholders excluding non-cash FAS 84 inducement and deemed dividends on exinguishment of convertible notes and preferred shares is a non-GAAP measure that excludes the effect of a charge and dividends that were strictly related to the Recapitalization. We believe that excluding them in this non-GAAP calculation provides a meaningful representation of the ongoing performance of the operations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition, results of operations, liquidity and capital resources should be read in conjunction with our audited consolidated financial statements and related notes included in Part III of this Form 10-K, commencing on page F-1.

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 June 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.

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 fiscal 2009, we achieved improvements in our operating income, bottom line and EBITDA results (in thousands):

	Fiscal 2009	Fiscal 2008	Change	% change
Operating income	$ 1,685	$ (1,969)	$ 3,654	N/A
Net loss	$ (2,339)	$ (6,769)	$ 4,430	65%
Less: Non-cash FAS 84 Inducement on extinguishment	1,651	-	1,651	N/A
Adjusted net loss before non-cash FAS 84 inducement	$ (688)	$ (6,769)	$ 6,081	90%
EBITDA - Non GAAP Measure - reconciliation below	$ 4,530	$ 1,240	$ 3,290	265%

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- We are reporting operating income for fiscal 2009 of $1.7 million compared to an operating loss of $2.0 million in fiscal 2008, an improvement of $3.7 million. We are also reporting a net loss for fiscal 2009 of $2.3 million most of which is the result of a $1.7 million non-cash charge in the fourth quarter reflecting the application of FAS No. 84 to a portion of our $40 million Recapitalization transaction in June of 2009. We believe that a meaningful Non-GAAP representation of the results of operations for fiscal 2009 would be the $688,000 Non-GAAP adjusted net loss before non-cash FAS 84 inducement that when compared to the $6.8 million loss of the prior year (which did not include any FAS 84 conversion inducement charge), shows an improvement of $6.1 million, or 90%. In particular, FAS No. 84 requires the exchange of outstanding convertible debt securities for shares of common stock in the Recapitalization to be treated as a conversion inducement notwithstanding the highly beneficial economic substance of the overall transaction to the Company. This non-cash accounting charge has been included in our Consolidated Statement of Operations but does not reflect the highly positive economic substance of the June 2009 Recapitalization, which provided us with enormous short term and long term financial benefits that are inconsistent with the FAS 84 noncash accounting charges. See Note 4, Recapitalization.

- In addition, in the Recapitalization the Company redeemed of all the outstanding Series A, Series B, and Series C preferred shares into Common Stock. The application of FAS 84 and EITF No. D-42, “The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock,” to the preferred shares redemption resulted in a $1.7 million non-cash deemed dividend. While the $1.7 million non-cash deemed dividend does not impact the Consolidated Statement of Operations, it is included in the calculation of the Net loss attributable to common shareholders of $0.31 loss per share in fiscal 2009. We believe that a meaningful representation of the results of operations on a per share basis would be the $0.08 loss per share which excludes both the non-cash FAS 84 inducement and the non-cash deemed dividend as both of those calculations are the result of the Recapitalization and not of the ongoing performance of the business. See Note 4 – Recapitalization.

- In addition to the $1.7 million non-cash charge, the net loss for fiscal 2009 reflects other non-cash charges of $3.4 million, such as depreciation and amortization of assets, debt costs, debt discounts, stock-based compensation, and provision for doubtful accounts. The net loss also reflects stated rate interest expense associated with servicing of our debt of $2.1 million, which expense is expected to be reduced by more than $1 million in the upcoming year as a result of the June 2009 Recapitalization, legal expenses of $950,000 and public company costs of $864,000.

- EBITDA, a non-GAAP measure, increased by $3.3 million or 265% from $1.2 million in fiscal 2008 to $4.5 million in fiscal 2009.

- As noted, on June 29, 2009, we completed a $40 million Recapitalization. The Recapitalization had an immediate reduction of our total debt of $4.5 million, reduced our annual servicing expense for interest and dividends by over $1 million, increased shareholders’ equity by at least $4.1 million and reduced our debt to equity ratio from approximately 9 to 1 to 2 to 1 from June 30, 2008 to June 30, 2009, respectively. The contribution of the Recapitalization to our financial strength and stability going forward is incontrovertible.

- In the June 2009 Recapitalization, we extinguished all of our outstanding non-bank debt and preferred stock by entering into various agreements with dozens of our then existing debt and equity investors. This extinguishment included $8.859 million in outstanding August 2007 11.5% Senior Secured Convertible Promissory Notes (the “Secured Notes”); $725,000 in outstanding September 2008 12% Unsecured Convertible Promissory Notes (“Existing Unsecured Notes”); $2.263 million in 12% Cumulative Dividend Convertible Series A Preferred Stock (“Series A Preferred”); $1.787 million in 12% Cumulative Dividend Convertible Series B Preferred Stock (“Series B Preferred”); $149,000 in 12% Cumulative Dividend Convertible Series C Preferred Stock (“Series C Preferred”) and $617,000 in accrued but unpaid interest and dividends on the Secured Notes, the Existing Unsecured Notes and the Series A, Series B and Series C Preferred Stock.

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As part of the Recapitalization, we converted our then existing $25 million revolving line of credit into a new, significantly more favorable, $25 million loan facility. We entered into the Eighteenth Amendment to the Loan and Security Agreement with our principal lender, Wachovia Bank, obtaining a new credit facility which consists of a three year $20 million revolving loan coupled with a new $5 million 5.5%, 60 month, fully amortized term loan. The proceeds of the term loan were then applied to pay down $4.867 million of the Secured Notes and $125,000 of the Unsecured Notes. The Eighteenth Amendment also extended the renewal date of the revolving line of credit to July 1, 2012, added our vehicles and field operating equipment as additional collateral for the Bank, and modified several covenants in the loan agreement in a manner favorable to us. The Bank's 3 year extension of the line of credit and the other beneficial terms of the Eighteenth Amendment including the issuance of a 5 year term loan, were the foundation upon which we were able to build the various other transactions comprising the Recapitalization.

- To complete the extinguishment of our existing debt and senior equity securities, we exchanged 11.5% and 12% high yield securities held by our debt and preferred shares holders for lower yield 5.5% debt or equity securities or shares of our Common Stock. As a result, we issued (i) 3,228 shares of a new 5.5% Cumulative Dividend Series D Preferred Stock ("Series D Preferred") at $400 per share, or $0.40 per common share equivalent, for $1.291 million, (ii) 19,251,119 shares of Common Stock for $0.38 per share, or $7.315 million, and (iii) a 5 year $0.8 million 5.5% Unsecured Note (the "New Unsecured Note"); and paid an additional $43,934 in cash, which eliminated all of our outstanding Series A Preferred, Series B Preferred, Series C Preferred, Existing Unsecured Notes and Secured Notes, and any accrued interest and dividends payable therein.

- We reduced our non-bank debt by the Recapitalization, since the only remaining non-bank debt is the New Unsecured Note, a five year, 5.5% interest only subordinated promissory note for $800,000 issued to an existing institutional investor in exchange for $800,000 of its $1 million Secured Note. The institutional investor exchanged the $200,000 balance of the Secured Note for shares of Common Stock at $0.38 per share.

    - Our total debt has decreased $15.0 million or 52% at June 30, 2009 compared to June 30, 2008, partly due to lower fuel prices this year which affect the line of credit balance but also due to the Recapitalization which had an immediate reduction of $4.5 million.

    - We also negotiated more favorable interest rates in the Recapitalization, thereby reducing our future interest expense obligations. Our new $5 million term loan interest rate is at a LIBOR floor of 0.75% plus 3.75%, or 4.5%, compared to the 11.5% and 12% that we were paying on the former Secured and Unsecured debt. Similarly, our new $800,000 unsecured note and our new Series D Preferred Stock series D all have a yield of 5.5%, respectively, compared to the 12% cumulative dividend on the extinguished Series A, B and C Preferred Stock. We also deferred, for the first thirteen months after the June 2009 Recapitalization, all interest on the unsecured notes and dividends for the preferred stock series D. The improved terms in our bank line of credit include lowering our current rate from 4.0% to 3.75%, as it is now based on a LIBOR floor of 0.75% plus 3.00% compared to our former rate of prime of 3.25% plus 0.75%. The line of credit financial covenants have also been changed favorably, lowering our fixed charge coverage ratio to 1.1 to 1.0 from 1.3 to 1.0 and our daily excess availability from $750,000 to $250,000. We believe that the drastic reduction in our debt and dividend bearing preferred stock from the Recapitalization has correspondingly improved our enterprise value and the value of our Common Stock, even after considering the increase in outstanding Common Stock in the recapitalization to 35.8 million shares and 42 million shares on a fully diluted basis.

    - In July and September 2009 several of the preferred D shareholders converted 2,630 shares into 2,673,056 shares of Common Stock.

- The strengthening of our balance sheet through the Recapitalization also reflects the continuing improvement of our business during fiscal 2009. While the difficult economic environment has affected demand from existing customers, we have maintained our customer base, and we have added new customers, as evidenced by the expansion of our services during this fiscal year into two new states and five new territories. The trend of steadily improving financial performance, which started in the fourth quarter of fiscal 2008, continued during fiscal 2009, as we reported higher net margins, and operating income, and improved EBITDA versus the same period a year ago. We continue to operate more efficiently than in prior periods, partially as a result of our fully developed infrastructure and ERP system, both of which facilitated our timely reaction to changing economic conditions during the second quarter of fiscal 2009, when we quickly adjusted our costs in response to decreasing volumes as a result of the rapid contraction of the national economy and its impact on our customer base.

- At that time, we responded with various cost cutting measures, including business restructuring steps, beginning late in November 2008 and through the remainder of fiscal 2009, to meet the decrease in customer demand. Our results reflect the impact of eliminating operating and administrative personnel and maximizing the productivity of equipment and reducing direct and office operating expenses. For example, we consolidated delivery routes to improve efficiencies without sacrificing our high level of customer service. Moreover, as the economy has contracted, we have continued to add new customers seeking to reduce their costs of operations with mobile fueling or replacing their prior service providers for the higher value solution we provide, which includes greater reliability, a substantial reduction in service issues and better reporting metrics. We have also expanded the services we provide to existing customers, such as the recent addition of mobile fueling services in North Carolina for the United States Postal Service, which has been our customer for over 15 years.

- Financial results from commercial mobile and bulk fueling services continue to be largely dependent on the number of gallons of fuel sold and the net margin per gallon achieved. During fiscal 2009, we experienced a 6.0 million decrease in the number of gallons sold compared to the same period in fiscal 2008. This decrease is due to lower volumes demanded by some of our existing customers in response to the weaker economy and to our pursuit of business with higher net margin contributions, with the overall decrease partially offset by the volume generated from new customers. While these volumes represent a decrease from prior years, in the third quarter of fiscal 2009 we began to see some stabilization of existing customer demand which trend continued in the fourth quarter of fiscal 2009. While there can be no assurance that this year's downturn in customer volumes has in fact bottomed out, we remain cautiously optimistic that, in light of the stabilization of customer demand, our continuing success in adding new customers, and the cost cutting measures made earlier in the fiscal year, our operations and financial performance will continue to improve as they did during fiscal 2009.

- It is important to note that our net margin in fiscal 2009 was higher on 68 million gallons than it was in fiscal 2008, 2007 and 2006 when we sold 74 million, 85 million and 94 million gallons, respectively. The net margin per gallon has increased to $0.258 in fiscal 2009 from $0.149 in fiscal 2006, an increase of 73%. These continued higher net margins on lower volumes are the direct result of our fully implemented ERP system and the utilization of our margin control tools to eliminate non-contributory lower margin business, which has allowed for improved route delivery efficiency including the consolidation of routes and margin analysis of our marketing group to both assess margin contribution and decision making more timely. Such elimination allows for increased capacity of our fleet and for personnel to be deployed for emergency response business as needed.

	Year Ended June 30,			
	2009	2008	2007	2006
Net Margin	$ 17,517	$ 14,354	$ 14,333	$ 14,076
Net Margin per gallon (in dollars)	$ 0.258	$ 0.194	$ 0.169	$ 0.149
Total Gallons	67,902	73,871	84,899	94,261

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TRENDS IN FISCAL YEAR 2009 TO DATE

- We began our 2009 fiscal year with a strong first quarter during which we achieved improved results in several of our key financial categories when compared to the fourth quarter of our 2008 fiscal year. These improvements included increases in gross profit of 36%, a change from net loss to net income of $878,000 and an EBITDA increase of 72%. While emergency storm response work contributed to some of these strong results, we believe that the most important factor was the significant margin contribution stemming from the efficiencies generated by the ERP system and our focus on higher margin business.

- While we ended our first quarter of fiscal 2009 with optimism in regards to our improving bottom-line performance, our operations were materially impacted in the second quarter of fiscal 2009 by the down spiraling worldwide economy and its dramatic effect on our approximately 4,600 customers across virtually all U.S. manufacturing and service sectors. When comparing the second quarter of fiscal 2009 to the first quarter, it was apparent that the dramatic economic downturn yielded a reduction in gallons sold of 11% net of any additions attributable to new business, and contributed to a decrease in gross profit of 43%, a $1.2 million change from net income to net loss and an EBITDA decrease of 65%. We did respond decisively, however, in November and December 2008 to this sudden reduction in customer demand by making significant reductions in costs, improving the efficiencies in all of our operating areas and expanding into five new markets and two states to meet demand for our services.

- We believe that our fully operational corporate infrastructure and ERP system underpinned our ability to execute the tactical measures that we initiated in the second quarter of fiscal 2009 and put us back on track toward the financial performance that we had previously anticipated coming out of the first quarter of 2009. When comparing the third and second quarters of fiscal year 2009, we realized material improvements in all the key financial categories, including an increase in gross profit of 15%, a reduction in net loss of 63%, together with an EBITDA increase of 41%. The key to our improved performance was the 25-cent net margin per gallon we achieved in the third fiscal quarter, a 4-cent or 19% improvement from the second quarter which resulted from improved efficiencies and focus on higher margin business.

- We continued the positive trends of the third quarter into the fourth quarter with a sales volume of 16.7 million gallons, which is a slight increase in gallons sold of 4% as compared to the third quarter of fiscal 2009. While the GAAP reported net loss for the fourth quarter of fiscal 2009 was $1.9 million, it was only $297,000 before the $1.7 million non-cash FAS 84 inducement charge for the extinguishment of the convertible debt securities, which would have been a slight increase from the third quarter and a decrease of 19% compared to the net loss of $366,000 in the fourth quarter of fiscal 2008.

- We currently expect the stabilization of customer demand that we saw at the end of fiscal 2009 to continue in fiscal 2010 and believe that the demand from new customers for our services is strong. However, we are unable to predict an improvement in demand from our existing customers in the short run. There can be no assurance that a continuation or a worsening of the current adverse economic condition will not further adversely impact our customers and, in turn, our business.

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

	For the three months ended							
	June 30, 2009	March 31, 2009	December 31,	September 30,	June 30,	March 31,	December 31,	September 30,