



December 22, 2011

Dear Shareholders:

As we move towards 2012 it is a good time to reflect upon the past fiscal year and the new year in front of us.

As previously reported, for our fiscal year ended June 30, 2011, we earned net income of \$1.3 million compared with \$0.5 million in fiscal year 2010. This performance was primarily driven by a combination of increased sales volume, as measured in gallons, coupled with higher net margin per gallon. Our sales and marketing efforts leveraged the investment in information systems we made in previous years, and the Company enjoyed net new customer relationships while continuing to service its diversified customer base. The robust data provided by our enterprise systems has allowed our team to better manage costs and efficiently utilize our human and capital resources.

We are also pleased with the continuing improvement in our balance sheet, a result of our stronger cash flow and improved working capital management stemming from our concentrated emphasis on receivables management. EBITDA¹ increased to \$4.5 million, or \$0.5 million, 12.5% higher than Fiscal Year 2010. As a result, we have decreased our debt by \$1.0 million and increased shareholders' equity by \$1.0 million.

Since the beginning of fiscal 2012:

We have continued our positive trends from fiscal 2011, already reporting a strong first quarter both in volume and earnings. In fact, the Company has now recorded six straight quarters of net income, the highest quarterly volume in four years, and consistent and increasing EBITDA.

Given the improved financial position of the Company, we implemented our *first ever* cash dividend of 1.25 cents per common share per quarter, which was paid to you on October 14, 2011. We subsequently raised the common dividend by 20%, to 1.50 cents per share per quarter, which was then paid to you on December 2, 2011.

In fiscal 2012, we also enhanced and expanded our principal bank facility, allowing the Company to enjoy lower interest cost and an extended maturity date, among other benefits. These enhancements reflect not only our improved financial results but also our excellent relationship with our main lender.

¹ EBITDA is a non-GAAP measurement that is reconciled with reported earnings in our Form 10-K.

All organizations must evolve over time and our Company is no exception. We have been reviewing all elements of our business, from top to bottom, in an effort to deliver more value to our shareholders. That review has included the composition and structure of our management team and Board of Directors. As such, we are making the following changes:

On November 21, 2011, Steve Goldberg joined the management team as CEO and President. Having been a member of the Board of Directors had given Steve a familiarity with the operations of the Company as well as respect for the talents and work ethic of our employees. He is excited and optimistic about the potential of our business. More on that below.

Wendell Beard, after over a decade of service to the Company, is retiring from the Board but will be named the Company's Director Emeritus and thus continue to provide his valued advice.

We are pleased to nominate Mark W. Smith as a new member of our Board of Directors. Mark is a sophisticated businessman who has real hands on experience in building a successful company and delivering significant shareholder value. Once he is elected by the shareholders at our February 7 meeting, Mark will be the new chair of our Audit Committee and will join the Corporate Governance Committee. You can read more about his background and qualifications in our proxy.

Peter H. Woodward, who joined the Board last May and who is the interim chairman of the Audit Committee, will move over to chair our Compensation Committee and will also join the Nominating and Corporate Governance Committee. Larry Mulkey, our new Chairman of the Board, will continue to chair the Corporate Governance Committee, where he and the committee will focus on continuing the Board's ongoing process of self-examination and enhanced transparency to better serve our shareholders. Larry brings a wealth of ideas, experience and wisdom to the role; we appreciate his willingness to take on this additional load.

With this new Board leadership in place, we expect the Board to continue to evolve in a manner that will support increasing shareholder value and communications.


As we look forward to the rest of fiscal 2012, we are on track to continue our improved performance. Our plans are simple and straightforward. We will pursue new opportunities to grow our business in and around our markets by utilizing our logistics equipment and resources and we will take advantage of cost savings and efficiencies wherever they are identified. Our greatest strength is our talented team of employees who are the key to our success. We have truly appreciated their support since we joined the team. It is indeed a privilege for us to serve our Company.

We also want to thank you, our shareholders, for your continuing support and we look forward to what we are confident will be an exciting and profitable future.

With best regards,



Larry S. Mulkey
Chairman



Steven R. Goldberg
Chief Executive Officer and President

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

FORM 10-K

(Mark One)

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

For the fiscal year ended: **June 30, 2011**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark 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

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

The aggregate market value of the voting stock held by non-affiliates was \$11,925,240. 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, 2010.

As of September 21, 2011 there were 8,366,578 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain Portions of registrant's Proxy Statement relating to the 2011 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. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as the information is identified as forward looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. 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 including but not limited to those that appear in this report under the heading “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 words or similar expressions are intended to identify forward-looking statements. Forward-looking statements in this report, including, without limitation, statements concerning management’s expectations of future performance, are based on our examination of historical operating trends and other information currently available to us as well as various assumptions derived therefrom. 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 any of these expectations, beliefs and projections will prove to be accurate.

For example, there may 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 report. 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 in our other filings with the SEC. We undertake no obligation to publicly update or revise forward-looking statements, including but not limited to those presented herein, to reflect events or circumstances after the date made or to reflect the occurrence of presently unanticipated events.

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PART I

Item 1. Business

Overview

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, 2011, we were conducting operations through 34 service locations in eleven states: 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 distributes 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. We also distribute a wide variety of specialized petroleum products, lubricants and chemicals to our customers in Texas and certain other markets. In addition, our fleet handles the movement of customer equipment as well as storage tanks we provide for use by our customers.

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 current structure of the industry and these markets offer us opportunities for expansion and consolidation, as customers increasingly prefer, or even demand, a single source for their petroleum based needs, including many who need highly reliable supply distribution services to prevent business interruptions even during emergencies. We believe that many of these factors create advantages for us over our competitors.

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.

References in this report to “the Company”, “SMF”, “we”, “us”, and “our” refer to SMF Energy Corporation and its subsidiaries.

Strategy

A principal objective of our business strategy is to become the leading “single source” provider of petroleum products and services in the markets where we currently operate, and to expand that strategy into additional markets. To achieve this objective we plan to focus on increasing revenues in our core operations and expanding in new or existing markets 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 the requirements of the Sarbanes-Oxley Act of 2002. Over the past few years, it has also permitted us to offset the negative impact of recent economic conditions on our customer base by steadily improving our efficiency, and supporting our expansion into new markets and within existing markets.

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 integrate 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
- s and controls; and
- transaction financing alternatives, among others.

We have historically funded acquisitions primarily by raising additional capital. While recent economic conditions have considerably tightened the capital markets, we still believe that new capital, in the form of equity, debt or a combination of both, will be available to us for making acquisitions of complementary or diversifying businesses. We expect that we can obtain the capital required to make such acquisitions. Nevertheless, there is no assurance that we will be able to identify and engage suitable acquisition candidates or that, if we do so, we will successfully raise the necessary capital to complete the acquisition and implement our growth strategy.

Products, Services and Operations

Commercial Mobile and Bulk Fueling and Fuel Management Services

We provide commercial mobile and bulk fueling distribution services 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 sold to each vehicle and tank fueled at a customer location. This system allows verification of the amount and type of fuel sold 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 sold to each vehicle or piece of equipment that we provide the fueling services to. 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 distribution 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 substantially lowers, and in some cases eliminates, the risk of employee theft by selling 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, as concerns of fleet operators about terrorism, hijacking and sabotage are increasing, fueling vehicles at customers' facilities reduces security risks to the fleet operators' employees and equipment when compared to fueling at retail service stations or other outside facilities.

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

We distribute and sell a wide array of branded and private label 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 distribution of lubricants in bulk and the repackaging of lubricants purchased in bulk quantities. In addition, we are a blender and distributor of specialty lubricants. These products are formulated from bulk feedstocks to meet specific industrial customer requirements and applications. We are also a distributor of solvents and other chemicals, including those used in the dry cleaning industry.

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 these 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 for their generators and other emergency power supply systems to ensure that they are fully fueled with fuel in optimal condition for use during power outages. We then provide emergency fuel supplies for the generators for the duration of the power outages following a pre-established schedule based on the utilization requirements of the individual 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 4,700 gallons and are equipped with multi-compartmented tanks. The fuel we sell or 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 sell portable storage tanks to our customers' job-site or other locations; and we reposition, re-supply and maintain these tanks as required, either on a scheduled or 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 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 based 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 year ended June 30, 2011, approximately 24% of our total revenues were derived from fleet fueling services provided to our two largest customers. Although we do have certain length of service written contracts with a few of our larger customers, including our two largest customers, one of whom the Company has been servicing for over 17 years, these types of agreements are not customary in the fuel and lubricant distribution industry. As a result, we do not have written contracts with the majority of our approximately 4,600 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 for any reason, including our evaluation of a customer's creditworthiness. While it is rare, we may also elect to discontinue service to a customer if changes in service conditions or other factors cause us not to reach targeted volumes or pricing, so that we are unable to achieve a margin on that customer's business that meets our yield requirements for that customer's logistics service.

The Company bills customers for its petroleum and other products and services when sold. We generally collect from our customers within 10 to 45 days after our products and services are sold.

Fuel and Lubricant Supply

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

We purchase the majority of our lubricants pursuant to a long-term supply agreement with Chevron, which also offers marketing assistance to us 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 of sales and service-plus basis. Traditionally, lubricants inventory was not subject to market price volatility as significant as that for fuel products. Recently, however, due to increasingly volatile petroleum prices, the prices of lubricants have experienced more frequent price changes than in the past. We do not believe, however, that these changes create significant pricing risks to us.

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 gas 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 distribution 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, 2011, we employed 229 employees, of which 224 were full-time employees.

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. In addition to this annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information are regularly filed with the Securities Exchange Commission (“SEC”). We also 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 annual 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 or Positive Cash Flow. While we earned net income for our two most recent fiscal years, in order to keep generating profits in the future, we may need to continue to 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 maintain net income or 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. If we need to raise additional capital to fund new acquisitions or to expand existing operations, we believe that we will be able to obtain that capital on acceptable terms, but there is no assurance that we will be able to do so.

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, maintaining that listing has been costly over the past few years and there is still no assurance that such listing will continue. In particular, because the bid price of our common stock closed below the minimum \$1.00 per share requirement of Nasdaq Marketplace Rules for more than 30 consecutive business days in 2007, we were ultimately required to implement a 1 for 4.5 reverse stock split that took effect on October 1, 2009. While this reverse stock split succeeded in increasing the post-reverse split trading price of our common stock above the \$1.00 minimum bid price, the market price for our stock steadily decreased after the split, notwithstanding our steadily improving operating results at the time.

Accordingly, the aggregate market value of our common stock remains lower than it was before the reverse stock split. While we believe that our strong financial performance in fiscal 2011, coupled with our recent establishment of a quarterly dividend program for our common stock, has begun to overcome the lingering depreciation that followed our reverse stock split, there is no assurance that it will ultimately succeed in doing so.

Volatility of Trading Market for Our Stock. Our stock has sometimes traded in large daily volumes and other times at much lower volumes, in many cases at wide price variances. If this volatility occurs in the future, it could make it difficult for shareholders to sell shares at a predictable price or at specific times. 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, the availability of necessary capital on acceptable terms, 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 substantial assets.

Growth Dependent upon Future Expansion; Risks Associated with Expansion into New Markets. While our long term plan is 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 in the future we will be able to successfully expand our operations into new markets.

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 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 distribute our fuel supply daily and generally utilize cost-plus pricing when billing our customers. If we cannot continue to utilize cost-plus pricing as a component of billing our customers, margins would likely decrease and losses could return to the bottom line performance. 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. While limitations on the credit available from suppliers became a more significant issue for us during the onset of the national economic recession in fiscal 2008 and 2009, the 2009 Recapitalization and our improved operating performance in fiscals 2010 and 2011 has alleviated most of these credit availability issues. There is no assurance that a tightened credit market will not recur. 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 two largest customers represented 24% of our total revenue in fiscal year 2011. While we have formal, length of service written contracts with certain of these larger customers, including our two largest customers, one of whom we have been servicing for over 17 years, 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 passed along to our customers to achieve our required yield. 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 global economic downturn that followed the September 2008 stock market crash resulted in many businesses, including most of our customers, experiencing reduced demand for their services and, thus the amount of fuel that they consume in their operations. For those of our existing customers who experienced reduced fuel usage, the reductions lowered the volumes sold by us to those customers. We have since replaced those lost sales with sales to new customers and the expansion of service to existing customers in new markets. If the current weak economic conditions persist or worsen, however, it is possible that new or pre-existing

customers' fuel usage will decline again. Even though we were successful in replacing lost volume with new business and new customers in the past, since we cannot predict the severity or impact of a future economic downturn, we cannot assure you that we will be able to recover lost volumes as quickly as we did in the past. If and to the extent that our volumes do decline, our revenues and our results of operation could be negatively affected.

Continuation of Quarterly Dividend Program Not Assured. We believe that the recent adoption of a quarterly dividend program for our common stock by our Board of Directors has enhanced the value of our common stock. If this program is discontinued or suspended sometime in the future, however, holders of our common stock will no longer receive the benefit of those dividends and the trading prices of our common stock may be adversely 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. In addition, because our principal competitors are privately held, we are adversely affected by the availability of the information concerning our business contained in our SEC filings and elsewhere, since they can utilize that information to compete with us and we have no corresponding information concerning them. 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.

Terrorism and Warfare 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 various oil producing countries, 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 or warfare 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 or war 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 or war 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 and in Lufkin, Texas. We also lease truck yard and office space for 18 locations specified below as of June 30, 2011, primarily under 1 to 5 year leases which include lease renewal options. We believe that our facilities are adequate for our current needs.

<u>Location</u>	<u>Lease Expiration</u>
Bloomington, CA	7/15/2013
Gardena, CA	7/14/2016
Jacksonville, FL	8/31/2015
Melbourne, FL	2/29/2012
Orlando, FL	11/30/2012
Port Everglades, FL	5/31/2012
Jackson, MS	12/31/2012
Charlotte, NC	12/31/2011
Greensboro, NC	5/31/2012
Selma, NC	10/31/2011
North Augusta, SC	10/31/2011
Spartanburg, SC	11/11/2011
Knoxville, TN	11/16/2011
Ft. Worth, TX	12/31/2011
Houston, TX	9/30/2015
San Marcos, TX	12/15/2012
Selma, TX	12/31/2013
Waxahachie, TX	9/30/2015

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

Fort Myers, FL
Doraville, GA
Ellabell, GA
Gonzales, LA
North Las Vegas, NV
Chattanooga, TN
Elm Mott, 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, 2011. Therefore no contingency gains or losses have been recorded as of June 30, 2011. 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.

Effective June 30, 2011, the Company and its subsidiary H & W Petroleum Company, Inc. ("H & W") settled a civil action previously filed by the Company in Harris County, Texas (the "Harris County Litigation"). The Harris County Litigation arose out of the Company's 2005 purchase of all of H & W's outstanding stock (the "Stock Purchase") from the former shareholders of H & W (the "Former H & W Shareholders"), H & W's concurrent purchase of certain assets (the "Asset Purchase") of another company affiliated with the Former H & W Shareholders ("KSB"), and various facility lease agreements (the "Leases") between certain affiliates of the Former H & W Shareholders (the "Landlords"), as lessors, and H & W, as lessee, relating to facilities currently occupied by H & W in Houston, Waxahachie and Lufkin, Texas (the "Facilities"). The Stock Purchase, the Asset Purchase and the Leases are collectively referred to as the "Transactions". The Former H & W Shareholders, KSB and the Landlords are collectively referred to as the "KSB Parties".

In the settlement, the Company, H & W and the KSB Parties agreed to dismiss the Harris County Litigation and release all claims made therein and all claims related to the Transactions in exchange for (i) the conveyance to H & W of the Facility in Lufkin, Texas (the "Lufkin Conveyance"); (ii) the conveyance of certain equipment that is no longer in use to the Landlord of the Waxahachie Facility, (iii) the modification of the Lease of the Facility in Houston to permit a portion of the rent to be reserved by H & W to fund improvements to that Facility; and (iv) various other modifications of the Leases. Because the Lufkin Conveyance recently closed, the parties have filed a joint motion to dismiss the Harris County Litigation and all claims made therein, with prejudice, which is expected to be granted by the Court in the ordinary course.

Item 4. (Removed and Reserved)

PART II

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

Our 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 our 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.

	<u>Common Stock</u>	
	<u>High</u>	<u>Low</u>
<u>Year Ended June 30, 2011</u>		
1st quarter	\$1.42	\$1.11
2nd quarter	\$1.70	\$1.29
3rd quarter	\$2.25	\$1.36
4th quarter	\$1.73	\$1.30
<u>Year Ended June 30, 2010</u>		
1st quarter	\$2.48	\$1.17
2nd quarter	\$1.79	\$1.21
3rd quarter	\$1.57	\$1.22
4th quarter	\$1.91	\$1.11

On September 21, 2011, the closing price of the common stock was \$2.22 per share. As of October 15, 2010, there were 1,000 holders of record of our common stock and approximately 93 beneficial owners of our common stock.

Dividends

The payment of dividends on our common stock, if any, is within the discretion of the Board of Directors, based on its consideration of our earnings, our capital requirements and financial condition and other relevant factors. While we had never before declared or paid dividends on our common stock, in August of 2011, our Board of Directors adopted a quarterly cash dividend program, beginning with a dividend of \$0.0125 per share to be paid on October 14, 2011, to shareholders of record as of the close of business on September 28, 2011. Future dividends will be subject to Board of Directors approval. The quarterly dividend program replaced the Company’s open market stock repurchase program, which has been terminated. The Company’s principal lender granted its consent to the quarterly dividend program, as required by the Company’s loan agreement, subject to our maintenance of certain minimum cash availability and fixed coverage ratio requirements.

Dividends on the 599 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 was in August 2010 and was paid in cash. During fiscal year 2011, the Company declared cumulative dividends on its Series D Preferred Stock, which were paid by the time of this filing. 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. Future payments of dividends on the Series D Preferred Stock remain subject to the continuing approval of our principal lender.

Dividends on 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 year 2011, the Company declared cumulative dividends of \$13,000 on the Series D Preferred Stock, which were accrued for as of June 30, 2011 and paid as of the date of this filing. In August 2010, the Company declared cumulative dividends of \$13,000 on the Series D Preferred Stock, which were paid during the first quarter of fiscal 2011.

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, additional issuances of those securities, while unlikely at this time, could be made. In accordance with the respective Certificates of Designation for each Series, dividends would be 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.

Equity Compensation Plan Information

The information required by this item is incorporated by reference from our Definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed no later than 120 days after the end of the fiscal year covered by this report. See also Item 9B, Other Information, below.

Issuer Purchases of Equity Securities

On July 28, 2010, our Board of Directors approved a share repurchase program (the “Program”), which was subsequently terminated in August 2011. Under the Program, we could elect to purchase up to five percent of our outstanding capital stock, or approximately 435,000 shares of common stock or common stock equivalents. Repurchases of capital stock, including shares of common stock and Series D convertible preferred stock, were made on the open market at prevailing market prices or in block trades, subject to the restrictions relating to volume, price, and timing set forth in the Securities Exchange Act of 1934 Rule 10b-18, or in privately negotiated transactions. Repurchases were funded from our available cash under our revolving line of credit with our principal lender. During fiscal 2011, we purchased 247,236 shares of our common stock for an aggregate purchase price of \$385,310. Since the program was terminated in August 2011, we are no longer able to purchase any shares under the program.

Stock repurchases for the fiscal year ended June 30, 2011 were as follows:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs
August 1 through August 31, 2010	8,141	\$ 1.30	8,141
September 1 through September 30, 2010	21,006	\$ 1.37	21,006
October 1 through October 31, 2010	38,331	\$ 1.41	38,331
December 1 through December 31, 2010	28,098	\$ 1.66	28,098
January 1 through January 31, 2011	15,000	\$ 1.74	15,000
February 1 through February 28, 2011	1,750	\$ 1.84	1,750
March 1 through March 31, 2011	41,385	\$ 1.64	41,385
April 1 through April 30, 2011	51,090	\$ 1.62	51,090
May 1 through May 31, 2011	32,650	\$ 1.54	32,650
June 1 through June 30, 2011	9,785	\$ 1.55	9,785
Total	247,236	\$ 1.56	247,236

During the fiscal year ended June 30, 2011, the non-employee members of the Company’s Board of Directors received aggregate grants of 25,000 shares of restricted stock under the Company’s 2009 Equity Incentive Plan pursuant to an automatic grant program calling for a grant of 1,000 shares to each Director on the last day of each fiscal quarter and were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended. The Company’s Chief Executive Officer was granted 31,500 shares of restricted stock that vested on December 21, 2010, when his existing stock options expired. These grants were made pursuant to the Company’s 2009 Equity Incentive Plan. See also Item 9B, Other Information, below.

Item 6. Not Required

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 IV 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, 2011, we were conducting operations through 34 service locations in eleven states: 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 distributes 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 as well as 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 distribution services 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

Summary:

Fiscal 2011 was another year of solid operating performance as we continued to generate bottom line increased net income and strengthened our balance sheet to the point where we will begin paying cash dividends to all our common stock shareholders in fiscal 2012. Our net income was \$1.3 million, up 172%, or \$0.15 per common share, our operating income was \$2.4 million, and our EBITDA¹, a non-GAAP measure, was \$4.5 million. Our net margin per gallon² for the fiscal year was \$0.25. Our success in operating results and financial condition had its roots in 2006, when we started investing in infrastructure.

During fiscal 2011, in spite of a stagnant national economy, we continued the organic growth of our business while improving our operating efficiencies and the costs of doing business. Our gallons sold increased 2% over the prior year primarily due to the addition of new customers at existing locations. While not specifically quantifiable, this growth in volume provided efficiencies and yield which we believe resulted in improvements to our bottom-line performance far in excess of a one-to-one correlation to the 2% increase in volumes sold. This positive trend in the growth of our business accelerated into the fiscal 2012 during which we have already closed new customer additions which are expected to increase our annual volumes sold by 7% over fiscal 2011. While many factors could impact the realization of this increase in volumes already experienced in fiscal 2012, including the current negative global and national economic environments, we have a history of overcoming and exceeding such negative impacts as we offer a service which is designed to improve the performance of our existing and prospective customers in all market environments. We are preparing for additional projected growth by investing in our truck fleet, having acquired four new specialized fueling trucks during fiscal 2011 with six more to be delivered during fiscal 2012. This investment, which began in fiscal 2011, of approximately \$2.0 million through capital leases will support an even higher level of organic growth in both existing and possible new markets, while reducing operating expenses, improving efficiencies and satisfying the ever changing California emissions standards.

Our balance sheet was further enhanced through contributions to equity from bottom line performance and reduction of our existing term debt through the paydown of \$1.0 million in principal during this fiscal year. Our debt to equity ratio was 1.5 and 1.7 at June 30, 2011 and 2010, respectively.

We continue to actively evaluate and implement opportunities for return of capital to our shareholders. During fiscal year 2011, via our open market stock repurchase program, we purchased a total of 247,236 shares of common stock for approximately \$385,000. In August 2011, the Board of Directors replaced the stock market repurchase program with a first ever quarterly dividend program on our common stock, reflecting our commitment to provide a tangible return on investment to our shareholders. The first dividend will be a \$0.0125 per share quarterly payment on October 14, 2011 to shareholders of record as of September 28, 2011, currently estimated at \$105,000. While there are no guarantees of future performance or dividends, we believe that we are adopting a sustainable program that will substantially benefit our shareholders for the foreseeable future.

Extension of Loan Facility. In September 2011, we renewed our credit facility with our principal lender for a renewal of five years, or until September 27, 2016, and amended the loan agreement to significantly improve a number of terms. The amendments increased the maximum borrowing under the revolving line of credit portion of the facility from \$20 million to \$25.0 million, authorized a real estate loan of up to \$1.3 million for our Lufkin facility, and reduced the applicable interest rates from an existing range of 4.00% to 4.75% per annum to a new range of 2.50% to 2.75%. We currently estimate that the new, lower interest rates will provide us with annual savings of approximately \$270,000, or \$1.36 million over five years. Our estimated savings is based on a number of assumptions, including but not limited to the Libor 90 day rate remaining at or close to current levels. As a result of this five year extension, our line of credit has been reclassified as a long-term liability, which is reflected on our June 30, 2011, balance sheet, thereby increasing our working capital by \$7.9 million at that date. See discussion in "Sources and Uses of Cash", below.

Deferred Tax Asset. Because the valuation allowance that we take against our net deferred tax asset is based upon management estimates of future profitability and taxable income, as we continue to generate taxable income on a consistent basis, it becomes more likely that we will decide to reduce the valuation allowance to reflect estimated future taxable income. Any such reduction of the valuation allowance will be reflected in our financial statements as an income tax benefit, which benefit will correspondingly increase our net income for the period during which we make the

adjustment. As of June 30, 2011, our current net deferred tax asset of \$9.4 million is fully reserved. If we continue to report positive bottom line performance during fiscal 2012 comparable to what we reported this fiscal year, we may eliminate the valuation allowance that we have reserved against this net deferred tax asset. In such an event, we would report a substantial increase in earnings when that adjustment is made, along with a correlating increase to our Shareholders' Equity.

Non-GAAP Measures and Definitions

¹ **EBITDA.** EBITDA is defined as earnings before interest, taxes, depreciation, and amortization, a non-GAAP financial measure within the meaning of Regulation G promulgated by the Securities and Exchange Commission. We believe that EBITDA provides useful information to investors because it excludes transactions not related to the core cash operating business activities, allowing meaningful analysis of the performance of our core cash operations. Both stock-based compensation amortization expense and the write-off of unamortized acquisition costs are considered amortization items to be excluded in the EBITDA calculation.

² **Net Margin Per Gallon.** Net margin per gallon is one of the most important measures of our financial performance. It is calculated by adding the cost of sales depreciation and amortization to gross profit, and dividing that sum by the number of gallons sold.

RESULTS OF OPERATIONS:

To monitor our results of operations, we review key financial information, including net revenues, gross profit, selling, general and administrative expenses, net income or losses, and non-GAAP measures, such as EBITDA and net margin per gallon. We continue to seek ways to more efficiently manage and monitor our business performance. We also review other key operating metrics, such as the number of gallons sold and net margins per gallon sold. We calculate our net margin per gallon by adding the cost of sales depreciation and amortization to gross profit and dividing that sum by the number of gallons sold. Since our business is dependent on the supply of fuel and lubricants, we also monitor pricing and fuel availability from suppliers in order to make the most cost effective purchases of these products for our customers.

Comparison of Year Ended June 30, 2011 (“fiscal 2011”) to Year Ended June 30, 2010 (“fiscal 2010”)

Revenues

Revenues were \$236.4 million in fiscal 2011 as compared to \$192.8 million in fiscal 2010, an increase of \$43.6 million, or 23%. Our sales price variance from petroleum products and services during fiscal 2011 provided \$40.0 million of the increase in revenues. This increase in sales price variance was principally due to commodities market price increases of petroleum products. The revenue increase was also partially attributable to an increase of \$3.6 million in sales based on a 1.0 million volume variance increase in gallons sold compared to a year ago.

Gross Profit

Gross profit was \$16.7 million in fiscal 2011 as compared to \$15.2 million in fiscal 2010, an increase of \$1.5 million, or 10%. The net margin per gallon for fiscal 2011 and fiscal 2010 was 24.8 cents and 23.1 cents, respectively, an increase of 1.7 cents. The increase in gross profit is partially attributable to the increase in gallons sold, improved pricing and improved efficiencies obtained through the reduction of direct operating costs such as employee expense by \$202,000, travel expenses by \$123,000 and lower depreciation expense by \$78,000. These decreases are partially offset by higher running equipment expense of \$111,000 as the cost of fuel for running our trucks increased, and higher repair and maintenance expense of \$78,000.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses were \$14.4 million in fiscal 2011 compared to \$13.7 million in fiscal 2010, an increase of approximately \$700,000 or 5%. The increase in SG&A is primarily due to a net \$400,000 reduction in SG&A during fiscal 2010 from our recovery of legal and professional fees in a litigation settlement that lowered our SG&A by approximately \$587,000 as partially offset by a \$187,000 write-off of unamortized acquisition costs from the adoption of ASC 805.

The remaining net \$300,000 increase in SG&A in fiscal 2011 over the preceding year is due to higher employee expense of \$648,000 versus a year ago, as we expanded our operations, and higher credit card fees of \$218,000 due to higher revenues. These increases in SG&A were offset by lower expenses in professional fees of \$216,000, primarily because of the preparation fees for Sarbanes-Oxley 404(b) that we incurred in fiscal 2010, lower property tax and insurance expense of \$107,000 in fiscal 2011 and an aggregate reduction of \$105,000 in other expenses such as travel, office, and facilities expenses. In fiscal 2011, we also lowered our expenses in non-cash categories, such as lower depreciation expense of \$125,000, and lower stock option compensation expense of \$100,000.

Interest Expense

Interest expense was \$921,000 in fiscal 2011, as compared to \$978,000 in the same period of the prior year, a decrease of \$57,000, or 6%. Since fiscal 2010, we have paid down \$1.0 million of our term loan. Our interest rate terms remained basically the same for both periods, which at June 30, 2011 was at 4.0% for our line of credit, 4.75% for our term loan, and 5.5% for our convertible subordinated promissory note. As a result of the loan facility renewal effectuated in September 2011, the interest rates at the time of this filing are 2.61% for our line of credit and 2.86% for our term loan.

The components of interest expense were as follows (in thousands):

	Year Ended June 30,	
	2011	2010
Stated Rate Interest Expense:		
Line of credit	\$ 468	\$ 455
Long-term debt	215	261
Other	83	93
Total stated rate interest expense	<u>766</u>	<u>809</u>
Non-Cash Interest Amortization:		
Amortization of deferred debt costs	<u>155</u>	<u>169</u>
Total interest expense	<u>\$ 921</u>	<u>\$ 978</u>

Income Taxes

Total income tax expense of \$226,000 and \$32,000 was recorded for fiscals 2011 and 2010, respectively.

As of June 30, 2011, we had net operating loss carryforwards for state income tax purposes of approximately \$25.2 million which expire in various years and for federal income tax purposes of approximately \$25.8 million which will begin to expire in fiscal year 2012.

To the extent that a valuation allowance is established or an increase in the allowance is recorded in a period, a tax expense is provided in the statement of operations. Management judgment is required in determining the provision for income taxes, the deferred tax assets and liabilities, and any valuation allowance recorded against net deferred tax assets. A valuation allowance of \$9.4 million was recorded as of June 30, 2011, due to uncertainties related to utilizing some of the deferred tax assets, primarily consisting of certain net operating losses carried forward, before they expire. The valuation allowance is based on current estimates of future taxable income and the period over which net deferred tax assets will be recoverable. If actual results differ from these estimates, or these estimates are adjusted in future periods, it may be necessary to reduce or eliminate the valuation allowance, which would cause an increase in reported earnings for that period. As a result, changes in current estimates of taxable income could materially impact our financial position and results of operations. There can be no assurance that any reduction will be made to the allowance.

Net Income

Net income was \$1.3 million or \$0.15 per common share in fiscal 2011, compared to net income of \$465,000 or \$0.05 per common share in fiscal 2010, an improvement of approximately \$800,000 or 172%. The improvement in net income is primarily due to higher gross profit of \$1.5 million offset by higher SG&A of approximately \$700,000, and

higher income tax expense of \$194,000 due primarily to the alternative minimum tax rules and state income taxes in states where we already utilized available state tax net operating losses.

EBITDA

EBITDA was \$4.5 million in fiscal 2011, as compared to \$4.0 million in fiscal 2010, an increase of \$445,000 or 11%. The improvement in EBITDA is primarily due to higher gross profit of \$1.5 million partially offset by higher SG&A expenses discussed above. While our net income increased \$800,000 as explained above, EBITDA increased by \$445,000 since part of the increase in net income was due to a reduction of \$490,000 in non-cash charges such as depreciation and amortization expense, and the write-off of unamortized acquisition costs incurred last year, which were offset by an increase in income tax expense of \$194,000.

The reconciliation of EBITDA to net income for fiscal years 2011 and 2010 was as follows (in thousands):

	<u>Years Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Net income	\$ 1,263	\$ 465
Add back:		
Interest expense	921	978
Income tax expense	226	32
Depreciation and amortization expense within:		
Cost of sales	812	890
Selling, general and administrative expenses	1,143	1,268
Stock-based compensation amortization expense	90	190
Write-off of unamortized acquisition costs	-	187
EBITDA	<u>\$ 4,455</u>	<u>\$ 4,010</u>

Capital Resources and Liquidity

At June 30, 2011 and 2010, we had total cash and cash availability of approximately \$6.7 million and \$4.7 million, respectively. At June 30, 2011, cash and cash availability consisted of cash and cash equivalents of \$87,000 and additional cash availability of approximately \$6.6 million through our line of credit. As of September 21, 2011, our cash availability was approximately \$5.9 million. We are able to draw on our line of credit on a daily basis subject to debt covenant requirements.

During fiscal 2011, our EBITDA was \$4.5 million and EBITDA less fixed charges was \$1.3 million. These numbers are comparable to the \$4.0 million and \$1.9 million., respectively, reported a year ago. Our bank line of credit requires that EBITDA divided by fixed charges otherwise known as the fixed charge coverage ratio be maintained at 1.1 to 1 and for the fiscal year 2011 it was 1.41 to 1.

We have a \$9.4 million net deferred tax asset at June 30, 2011 that remains fully reserved but we have used approximately \$600,000 of the net operating loss carryforward to offset taxable income in the last two years.

During fiscal 2011, we acquired, under capital lease obligations, four new specialized mobile fueling trucks to modernize and increase the size of our fleet. We plan to acquire six more of these vehicles under similar leasing arrangements during fiscal year 2012. The additional equipment we have already acquired has expanded capacity to our system and has helped us improve our own fleet fuel economy and satisfy new California emission standards, giving us further opportunity to expand in new markets and lowering our repair and maintenance expense going forward. Our principal lender has given us approval to incur up to \$2.0 million in new debt to finance this fleet expansion, conditioned upon our continuing satisfaction of specified financial thresholds.

On July 28, 2010, our Board of Directors approved a share repurchase program (the "Program") which was then terminated in August 2011. Under the program we could purchase up to five percent of our outstanding capital stock, or

approximately 435,000 shares of common stock or common stock equivalents. Repurchases of capital stock, including shares of common stock and Series D convertible preferred stock, were made on the open market at prevailing market prices or in block trades, subject to the restrictions relating to volume, price, and timing set forth in Securities Exchange Act of 1934 Rule 10b-18, or in privately negotiated transactions. We funded the repurchases from our available cash under our revolving line of credit with our principal lender. During fiscal 2011, we purchased 247,236 shares of our common stock for an aggregate purchase price of \$385,000.

In August 2011, our Board of Directors approved a quarterly cash dividend program starting with a dividend of \$0.0125 per share to be paid on October 14, 2011, to shareholders of record as of the close of business on September 28, 2011. Future dividends will be subject to Board of Directors approval. The quarterly dividend program replaced our open market stock repurchase program, which was terminated. Our principal lender granted its consent to the quarterly dividend program, which consent is required by our loan agreement, as amended (the "Loan Agreement"), so long as (a) we maintain a ratio of EBITDA to Fixed Charges for the most recent twelve month period, giving pro forma effect to any dividend payments to be made or already made that are not reflected therein, of at least 1.3 to 1.0, (b) at all times during the 90-day period preceding each dividend payment and after giving pro forma effect to any proposed payments, we maintain Excess Availability of not less than \$2,250,000 under the Loan Agreement, (c) aggregate dividends do not exceed \$600,000 per annum, and (d) no Default or Event of Default exists under the Loan Agreement. Capitalized terms are defined in the Loan Agreement.

We do not believe that the payment of our dividends will impair our capital resources or our ability to support the cash needs to run our business. Moreover, while there can be no certainty, we believe that, as a result of the net income, EBITDA and cash flow realized in the last two fiscal years and our renewed credit facility we have established adequate credit enhancements to meaningfully respond to potential increases in volumes, irrespective of whether they are accompanied by fuel price increases.

Sources and Uses of Cash

In September 2011, we renewed our credit facility with our principal lender for a renewal of five years, or until September 27, 2016, and amended the loan agreement to significantly improve a number of terms. The amendments increased the maximum borrowing under the revolving line of credit portion of the facility from \$20.0 million to \$25.0 million, authorized a separate real estate loan of up to \$1.3 million for our Lufkin facility, and reduced the applicable interest rates for the line of credit and the term loan from the existing rates of 4.00% and 4.75% per annum, respectively, to new current interest rates of 2.25% plus Libor 90 day rate and 2.50% plus Libor 90 day rate, respectively. (The Libor 90 day rate at September 27, 2011 was 0.36%). We currently estimate that the new, lower interest rates will provide us with annual savings of approximately \$270,000 or \$1.36 million over five years. Our estimated savings is based on a number of assumptions, including but not limited to the Libor 90 day rate remaining at or close to current levels. As a result of this five year extension, our amounts due under the line of credit have been classified as a long-term liability, which is reflected on our June 30, 2011 balance sheet, thereby increasing our working capital by \$7.9 million at that date.

Our \$25.0 million line of credit permits us to borrow up to 85% of the total amount of eligible accounts receivable and 65% of eligible inventory, both as defined in the loan agreement. Outstanding letters of credit reduce the maximum amount available for borrowing. Outstanding borrowings under the line are secured by substantially all Company assets, including our transportation fleet and related field equipment. Our line of credit finances the timing difference between petroleum product purchases payable generally in 10 to 12 days from date of delivery and the collection of receivables from our customers, generally in 10 to 45 days from date of service. The line of credit has a renewal date of September 27, 2016.

Interest is payable monthly based on a pricing matrix. At September 27, 2011, the interest rate for the line of credit was 2.61%. This rate was priced using 90 day LIBOR of 0.36%, plus the applicable margin of 2.25%. The applicable margin is determined quarterly based on a predetermined fixed charge coverage ratio pricing matrix with the applicable margins ranging from 2.00% to 3.00%.

As of September 27, 2011, we have outstanding letters of credit for an aggregate amount of \$1.2 million. These letters of credit were issued so that we could obtain better purchasing terms and pricing than were otherwise available in certain markets. The letters of credit have twelve-month expirations and renew automatically. No amounts have been

drawn on any of the letters of credit. As noted above, however, outstanding letters of credit reduce our cash availability under our line of credit facility.

As of June 30, 2011 and 2010, we had outstanding borrowings of \$7.9 million and \$6.9 million, respectively, under our line of credit. As a result of our September 2011 renewal and extension until September of 2016, outstanding borrowings under the line of credit are classified as long-term liability in accordance with ASC 470, Debt, as we now have control of available funds except in the event of a default, in which case we would pass control of funds back to the lender under a springing lockbox arrangement.

Based on eligible receivables and inventories, and letters of credit outstanding at June 30, 2011 and 2010, we had approximately \$6.6 million and \$4.6 million, respectively, of cash availability under the \$20.0 million line of credit in effect at that time. The revolving line of credit primarily enables us to satisfy our obligations during the time gap created between the payment for our products and the time when we collect from our customers. As such, due to the volatile nature of the petroleum products, the outstanding borrowings fluctuate as the petroleum market prices change as well as any change in demand from our customers. The \$1.0 million increase in the line obligation principally relates to the recent escalation of the price of petroleum products in the market place. This market price increase is also evidenced in both higher accounts receivable and payable balances compared to June 30, 2010.

The term loan, with an original amount of \$5.0 million, is fully amortized, requiring 60 monthly principal payments of approximately \$83,333, which payments commenced on August 1, 2009, with variable interest due monthly which was 4.75% at June 30, 2011 but reduced to 2.86% at September 27, 2011 as a result of the credit facility renewal discussed above. The term loan is secured by substantially all of our assets and, under the agreement with our lender for the total \$29.1 million credit facility, is co-terminus with the revolving line of credit if that line is no longer in place. During fiscal 2011, we have paid down \$1.0 million of the principal balance of the term loan so that, at June 30, 2011, the outstanding balance was \$3.083 million.

In connection with a June 2011 litigation settlement, we received land and a building in Lufkin, Texas, that we had previously leased from the conveying party. As part of the conveyance in September 2011, we paid off the existing mortgage on the property with funds from our revolving line of credit. Pursuant to the September 2011 extension and amendment of our credit facility, our principal lender agreed, subject to customary conditions, to provide a mortgage on the property for up to \$1.3 million, most likely \$1.1 million, which would be repaid in 180 monthly principal payments of approximately \$6,000, together with variable interest based on 90 day Libor plus 2.50%. The 15 year term of the mortgage will begin when the environmental and other conditions for the mortgage are satisfied, which we currently expect to occur prior to the end of calendar 2011.

With the addition of up to \$1.3 million real estate term loan and the increase of the revolving line of credit to \$25.0 million, as of September 27, 2011, the total size of our loan facility with our principal lender, considering the term loan balance of \$2.8 million as of such date, was approximately \$29.1 million.

In the June 2009 Recapitalization, we also extinguished \$800,000 of the August 2007 Notes through the issuance of a 5.5% interest only, unsecured convertible subordinated promissory note in the principal amount of \$800,000 (the "June 2009 Note"). The June 2009 Note is subordinated to all our other existing debt, including any amounts owed now or in the future to our principal lender. The holder of the June 2009 Note entered into a debt subordination agreement (the "Subordination Agreement") with us and our principal lender, whereby it expressly subordinated its rights under the June 2009 Note to the principal lender.

The principal balance of the June 2009 Note is due at maturity on July 1, 2014. Subject to the limitations in the Subordination Agreement, interest is paid semi-annually, except that the interest payment for the first thirteen months was not required to be paid until August 12, 2010. Thereafter, semi-annual interest payments are scheduled on or about each January 15th and July 15th. All required interest payments to date have been timely paid. Unpaid amounts under the June 2009 Note will become due and payable upon the occurrence of customary events of default, provided, however, that the deferral of any payment in accordance with the Subordination Agreement will not constitute an event of default. If permitted under the Subordination Agreement, the Company may pre-pay the June 2009 Note, in whole or in part, without prepayment penalty or premium.

Twenty-five percent (25%) of the original principal amount of the June 2009 Note, or \$200,000, may be converted into shares of our common stock at \$2.25 per share (the “Conversion Price”) at the option of the noteholder. The number and kind of securities purchasable upon conversion and the Conversion Price remain subject to additional adjustments for stock dividends, stock splits and other similar events.

Our debt agreements have covenants that define certain financial requirements and operating restrictions. Our failure to comply with any covenant or material obligation contained in these debt agreements, absent a waiver or forbearance from the lenders, would result in an event of default which could accelerate debt repayment terms under the debt agreements. Due to cross-default provisions contained in our debt agreements, an event of default under one agreement could accelerate repayment terms under the other agreements, which would have a material adverse effect on our liquidity and capital resources. At the date of this filing, we are in compliance with the requirements of the applicable covenants required by our debt agreements.

On November 23, 2009, the Company entered into a confidential settlement agreement (the “Agreement”) finally resolving all claims in the lawsuit entitled, *SMF Energy Corporation vs. Financial Accounting Solutions Group, Inc., Mitchel Kramer, Alex Zaldivar and Kramer Professional Staffing, Inc.* Pursuant to the Agreement, SMF received a payment of \$1,050,000 during the quarter ended December 31, 2009. The payment was a partial recovery of the professional fees incurred in connection with the lawsuit. The proceeds from the settlement were used to pay down the line of credit and then in turn used to pay for the professional fees incurred with the settlement, and for working capital purposes. The settlement of this lawsuit had a positive impact on our operating performance and our working capital requirements.

Cash Flows

During fiscal years 2011 and 2010, cash and cash equivalents decreased \$28,000 and \$8,000, respectively. We generated cash from the following sources (in thousands):

	Years Ended	
	June 30,	
	2011	2010
Cash provided by operating activities	\$ 1,164	\$ 2,467
Net proceeds from line of credit payable	1,025	-
Proceeds from sale of equipment	27	3
	<u>\$ 2,216</u>	<u>\$ 2,470</u>

We used cash primarily for (in thousands):

	Years Ended June 30,	
	2011	2010
Principal payments on term loan	\$ 1,000	\$ 917
Purchases of property and equipment	739	415
Repurchase and retirement of common stock	385	-
Capital lease payments	97	62
Payments of debt and equity issuance costs	10	135
Payment of preferred stock dividends	13	-
Net payments on line of credit payable	-	949
	<u>\$ 2,244</u>	<u>\$ 2,478</u>
Net change in cash and cash equivalents	<u>\$ (28)</u>	<u>\$ (8)</u>

As of June 30, 2011, we had \$7.9 million outstanding under our line of credit. The amounts disclosed in the captions titled "Proceeds from line of credit" and "Repayments of line of credit" in the accompanying consolidated statements of cash flows for the year ended June 30, 2011 include the cumulative activity of the daily borrowings and repayments, \$236.5 million and \$235.5 million, respectively, under the line of credit. The net cash borrowings from, or repayments of, the line of credit during the fiscal years ended June 30, 2011 and 2010, respectively, have been included as sources or uses of cash in the tables above.

Fiscal 2011 Cash Flows

During fiscal 2011, we generated cash of \$1.2 million from our operating activities and \$1.0 million of net proceeds from our line of credit, as we paid down \$1.0 million in principal of our long-term debt and used \$739,000 in purchases of property and equipment. Also, as part of the share repurchase program explained above, we purchased an aggregate of 247,236 shares of our common stock for an aggregate purchase price of \$385,310 at an average cost of \$1.56 per share. The Board of Directors elected to retire all of the repurchased shares so those shares are no longer outstanding and their cost is reflected as a reduction to Additional Paid-in Capital in the Shareholders' Equity section of the Balance Sheet.

Fiscal 2010 Cash Flows

During fiscal 2010, we generated cash of \$2.5 million from operating activities, while the primary uses of our cash were for \$1.0 million in net reductions of our line of credit, \$1.1 million pay down of our term debt and capital leases and \$415,000 in purchases of property and equipment. During fiscal 2010, we received a settlement payment of \$1,050,000 as a partial recovery of the professional fees incurred in connection with a lawsuit. The proceeds from the settlement were used to pay down the line of credit and then in turn used to pay for the professional fees incurred with the settlement, and for working capital purposes. The settlement of this lawsuit had a positive impact on offsetting other one-time type of costs in fiscal year 2010 and helped improve working capital requirements on account of the elimination of the costly litigation expenses.

Dividends

Dividends on the outstanding shares of our Series D Preferred Stock, which shares were issued in the 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 was in August 2010. During fiscal 2011 and fiscal 2010, the Company declared and paid cumulative dividends on its Series D Preferred Stock of \$13,000 per year. 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 our 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.

In July 2010, \$1.1 million of the Series D Preferred Stock was converted into 132,003 shares of Common Stock, further lowering our cost of capital as future preferred stock dividend payments were reduced.

In August 2011, our Board of Directors adopted a quarterly cash dividend program, beginning with its declaration of a dividend of \$0.0125 per share to be paid on October 14, 2011 for approximately \$105,000, to shareholders of record as of the close of business on September 28, 2011. Future dividends will be subject to Board of Directors approval. The quarterly dividend program replaced our open market stock repurchase program which was terminated. Our principal lender granted its consent to the quarterly dividend program of no more than \$150,000 per quarter and \$600,000 per year, which consent is required by our loan agreement, and it is subject to certain minimum cash availability and fixed coverage ratio requirements See above under Capital Resources and Liquidity.

Adequacy of Capital Resources

Our liquidity and ability to meet financial obligations is dependent on, among other things, the generation of cash flow from operating activities, obtaining or maintaining sufficient trade credit from vendors, complying with our debt covenants, continuing renewal of our line of credit facility and, if necessary, raising additional capital through the issuance of debt or equity securities or additional borrowings.

Our sources of cash during fiscal 2012 are expected to be cash on hand, cash generated from operations, borrowings under our revolving line of credit, and any other capital sources that may be deemed necessary. There is no assurance, however, that if additional capital is required, it will be available to us or available on acceptable terms.

Our uses of cash over the next twelve months are expected to be principally for operating working capital needs, maintaining our line of credit, and servicing any principal and interest on our debt, payment of common stock and preferred stock dividends, and costs to be incurred to expand or enhance our operations including the acquisition of new trucks. Our line of credit with our principal lender matures on September 27, 2016.

Off-Balance Sheet Arrangements

At June 30, 2011, we do not have any material off-balance sheet arrangements.

NEW ACCOUNTING STANDARDS AND CRITICAL ACCOUNTING POLICIES AND ESTIMATES

See Note 2 in the notes to consolidated financial statements included in this Form 10-K for pronouncements that have already been effective.

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350)—Testing Goodwill for Impairment* (“ASU 2011-08”), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for us in fiscal 2013 and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2011-08 on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05 which requires an entity to present all nonowner changes in stockholders’ equity either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders’ equity. This standard will become effective for the Company in the first quarter of fiscal year 2013 and should be applied retrospectively. The Company does not believe that the implementation of this standard will have a material impact on its financial position, results of operation and cash flows.

In December 2010, the FASB issued ASU No. 2010-28 related to goodwill and intangible assets. Under current guidance, testing for goodwill impairment is a two-step test. When a goodwill impairment test is performed, an entity must assess whether the carrying amount of a reporting unit exceeds its fair value (Step 1). If it does, an entity must perform an additional test to determine whether goodwill has been impaired and to calculate the amount of that impairment (Step 2). The objective of ASU No 2010-28 is to address circumstances in which entities have reporting units with zero or negative carrying amounts. The amendments in this guidance modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts to require an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists after considering certain qualitative characteristics, as described in this guidance. This guidance will become effective for the Company in the first quarter of fiscal year 2012. The Company currently does not have any reporting units with a zero or negative carrying value. The Company does not believe that the implementation of this accounting standard will have a material impact on its financial position, results of operations and cash flows.

Critical Accounting Policies and Estimates

We believe there are several accounting policies that are critical to understanding our historical and future performance as these policies affect the reported amount of revenues and expenses and other significant areas involving management’s judgments and estimates. On an ongoing basis, management evaluates and adjusts its estimates and judgments, if necessary. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingencies. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be materially different from those estimates. There were no changes to our critical accounting policies for the fiscal year ended June 30, 2011.

Accounts Receivable and Allowance for Doubtful Accounts

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customers’ current credit worthiness. Management continuously monitors collections and payments from customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that are identified. While such credit losses have historically been within expectations and the provisions established, we cannot assure that we will continue to experience the same credit loss rates that have occurred in the past.

Inventory Valuation Reserves

We make estimates relating to the net realizable value of inventories, based upon our assumptions about future demand, historical trends and market conditions. If we estimate that the net realizable value of inventory is less than the cost of the inventory recorded on our books, we record a reserve for the difference between the cost of the inventory and the estimated net realizable value. This reserve is recorded as a charge to cost of sales.

Property and Equipment

We record property and equipment at cost and depreciate that cost over the estimated useful life of the asset on a straight-line basis. Ordinary maintenance and repairs are expensed as incurred and improvements that significantly increase the useful life of property and equipment are capitalized.

We test property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The conditions that would trigger an impairment assessment of property, plant and equipment would include, but not be limited to, a significant, sustained negative trend in operating results or cash flows; a decrease in demand for our services; a change in the competitive environment; and other industry and economic factors. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. If such assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets based on the projected net cash flows discounted at a rate commensurate with the risk of the assets.

Other Intangible Assets

Intangible assets that are determined to have finite lives are amortized over their useful lives and are measured for impairment only when events or circumstances indicate the carrying value may be impaired. In these cases, we estimate the future undiscounted cash flows to be derived from the asset to determine whether or not a potential impairment exists. If the carrying value exceeds our estimate of future undiscounted cash flows, we then calculate the impairment as the excess of the carrying value of the asset over our estimate of its fair value.

Income Taxes

The provision for income taxes and corresponding balance sheet accounts are determined in accordance with ASC 740, "Income Taxes" ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are determined based on the temporary differences between the bases of certain assets and liabilities for income tax and financial reporting purposes. The deferred tax assets and liabilities are classified according to the financial statement classification of the net assets and liabilities generating the differences. We provide a valuation allowance for that portion of deferred tax assets which it cannot determine is more likely than not to be recognized.

As required by the provisions of ASC 740, we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

At June 30, 2011 and 2010, the amount of unrecognized tax benefits was approximately \$620,000 and \$695,000 respectively, of which approximately \$137,000 and \$268,000 would, if recognized, affect our effective tax rate for each respective tax year. We have not recognized this liability on the balance sheet due to our net operating loss carryforward.

To the extent that a valuation allowance is established or an increase in the allowance is recorded in a period, a tax expense is provided in the statement of operations. Management judgment is required in determining the provision for income taxes, the deferred tax assets and liabilities, and any valuation allowance recorded against net deferred tax assets. A valuation allowance of \$9.4 million was recorded as of June 30, 2011, due to uncertainties related to utilizing some of the deferred tax assets, primarily consisting of certain net operating losses carried forward, before they expire. The valuation allowance is based on current estimates of future taxable income and the period over which net deferred tax assets will be recoverable. If actual results differ from these estimates, or these estimates are adjusted in future periods, it may be necessary to reduce or eliminate the valuation allowance, which would cause an increase in reported earnings for that period. As a result, changes in current estimates of taxable income could materially impact our financial position and results of operations. There can be no assurance that any reduction will be made to the allowance.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

Our financial statements required by Form 10-K are attached following Part IV of this report, commencing on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures.

We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this annual report on Form 10-K. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2011.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as that term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our control environment is the foundation for our system of internal control over financial reporting. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated framework. Based on our assessment, management has concluded that our internal control over financial reporting was effective as of June 30, 2011 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company's independent registered public accounting firm.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, occurred during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Furthermore, due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any system's design will succeed in achieving its stated goals under all potential future conditions.

Item 9B. Other Information

Restricted Stock Grants. On September 26, 2011, our Compensation Committee (the "Committee") granted 93,500 restricted shares of our common stock to Richard E. Gathright, our President and Chief Executive Officer, under our Equity Incentive Plan. This grant completed the grants promised by the Committee in September of 2010, when it granted Mr. Gathright 31,500 restricted shares, of a total of 125,000 of restricted stock to replace the stock options previously issued to Mr. Gathright that expired in 2010. The September 2011 restricted stock grant included 31,500 shares vesting on November 1, 2011, 31,000 shares vesting on November 1, 2012 and 31,000 shares vesting on November 1, 2013. The Committee also resolved that, as was done for the September 2010 restricted stock grants, we would make a cash payment to Mr. Gathright equal to 50% of the market value of the 2011 restricted stock grants as each tranche vests in order to mitigate the tax impact of the grants. The closing market price of our common stock on the grant date of the stock award was \$2.47 per share.

On the same date, the Committee also fulfilled its previously declared intent to make restricted stock grants to the other 11 officers under the Plan. The 60,000 shares of restricted stock granted to the other 11 officers included grants to Michael S. Shore, our Chief Financial Officer, and L. Patricia Messenbaugh, our Chief Accounting Officer, who received 15,000 shares and 6,000 shares, respectively. All of the officers' grants will vest over a three year period, with 33% vesting on each anniversary date. The closing market price of our common stock on the grant date of the stock award was \$2.47 per share.

Allocation of Bonus Pool. Pursuant to the term of our employment agreement with Mr. Gathright, we are obligated to set aside 10% of our annual pretax profits in a bonus pool (the "Bonus Pool") to be allocated among Mr. Gathright and the other 11 officers, as ultimately determined by the Committee. The Bonus Pool for fiscal 2011 was \$157,282, and was allocated by the Committee to various officers based upon its evaluation, including management's input, of the relative contributions of the officers to our success in fiscal 2011 and prior years. The grants made by the Committee included a grant of \$55,049 to Mr. Gathright, \$20,447 to Mr. Shore and \$11,010 to Ms. Messenbaugh.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this item is incorporated by reference from our Definitive Proxy Statement in connection with our 2011 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

Item 11. Executive Compensation

The information required by this item is incorporated by reference from our Definitive Proxy Statement in connection with our 2011 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference from our Definitive Proxy Statement in connection with our 2011 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

Item 13. Certain Relationships, Related Transactions, and Director Independence

The information required by this item is incorporated by reference from our Definitive Proxy Statement in connection with our 2011 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference from our Definitive Proxy Statement in connection with our 2011 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Schedule

Our financial statements are attached included in Part IV of this report, commencing on page F-1. Financial statement schedules have been omitted since they are not required, not applicable, or the information is otherwise included.

(b) Exhibits

<u>Exhibits</u>	<u>Description</u>
2.1	Asset Purchase Agreement by and among SMF Energy Corporation., SMF Services, Inc., Shank C&E Investments, L.L.C., Jerry C. Shanklin and Claudette Shanklin dated January 25, 2005 filed as Exhibit 2.1 to the Company's Form 8-K filed January 31, 2005 and incorporated by reference herein.
2.2	Supplemental Agreement dated February 18, 2005 to the Asset Purchase Agreement by and among SMF Energy Corporation., SMF Services, Inc., Shank C&E Investments, L.L.C., Jerry C. Shanklin and Claudette Shanklin dated January 25, 2005 filed as Exhibit 2.1 to the Company's Form 8-K filed February 25, 2005 and incorporated by reference herein.
2.3	Stock Purchase Agreement by and among SMF Energy Corporation, H & W Petroleum Co., Inc., Eugene Wayne Wetzel, Mary Kay Wetzel, Sharon Harkrider, William M. Harkrider II, W. M. Harkrider Testamentary Trust, Harkrider Distributing Company, Inc. and W & H Interests dated September 7, 2005 filed as Exhibit 2.1 to the Company's Form 8-K filed September 8, 2005 and incorporated by reference herein.
2.4	Agreement of Merger and Plan of Merger and Reorganization between Streicher Mobile Fueling, Inc. and SMF Energy Corporation dated February 13, 2007. Filed as Exhibit 2.1 to the Company's Form 8-K filed February 14, 2007 and incorporated by reference herein.
3.1	Restated Articles of Incorporation filed as Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended June 30, 2003 and incorporated by reference herein.
3.2	Amended and Restated Bylaws filed as Exhibit 3.2 to the Company's Form 10-Q for the quarter ended December 31, 2003 and incorporated by reference herein.
3.3	Certificate of Incorporation of SMF Energy Corporation and Certificate of Amendment of Certificate of Incorporation of SMF Energy Corporation (incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A, filed on October 30, 2006).
3.4	Bylaws of SMF Energy Corporation (incorporated by reference to Appendix D to the Company's Definitive Proxy Statement on Schedule 14A, filed on October 30, 2006).

- 3.5 Certificate of Designation of Series A Convertible Preferred Stock. Filed as Exhibit 3.1 to the Company's Form 8-K filed March 6, 2008 and incorporated by reference herein.
- 3.6 Certificate of Designation of Series B Convertible Preferred Stock. Filed as Exhibit 3.1 to the Company's Form 8-K filed March 14, 2008 and incorporated by reference herein.
- 3.7 Certificate of Designation of Series C Convertible Preferred Stock. Filed as Exhibit 3.1 to the Company's Form 8-K filed August 21, 2008 and incorporated by reference herein.
- 3.8 Certificate of Designation of Series D Convertible Preferred Stock. Filed as Exhibit 3.1 to the Company's Form 8-K filed July 6, 2009 and incorporated by reference herein.
- 3.9 Certificate of Amendment of Certificate of Incorporation of SMF Energy Corporation. Filed as Exhibit 3.1 to the Company's Form 8-K filed September 15, 2009 and incorporated by reference herein.
- 4.1 Form of Common Stock Certificate filed as Exhibit 4.1 to the Company's Registration Statement on Form SB-2 (No. 333-11541) and incorporated by reference herein.
- 4.2 Form of Redeemable Common Stock Purchase Warrant filed as Exhibit 4.2 to the Company's Registration Statement on Form SB-2 (No. 333-11541) and incorporated by reference herein.
- 4.3 Underwriters' Purchase Option Agreement between the Company and Argent Securities, Inc. filed as Exhibit 4.3 to the Company's Registration Statement on Form SB-2 (No. 333-11541) and incorporated by reference herein.
- 4.4 Warrant Agreement between the Company and American Stock Transfer & Trust Company filed as Exhibit 4.4 to the Company's Registration Statement on Form SB-2 (No. 333-11541) and incorporated by reference herein.
- 4.5 Indenture with The Bank of Cherry Creek dated August 29, 2003 filed as Exhibit 10.14 to the Company's Form 10-K for the fiscal year ended June 30, 2003 and incorporated by reference herein.
- 4.6 Form of 10% Promissory Note dated January 25, 2005 filed as Exhibit 10.2 to the Company's Form 8-K filed January 31, 2005 and incorporated by reference herein.
- 4.7 Form of Investor Warrant dated January 25, 2005 filed as Exhibit 10.3 to the Company's Form 8-K filed January 31, 2005 and incorporated by reference herein.
- 4.8 Indenture Agreement with American National Bank dated January 25, 2005 filed as Exhibit 10.4 to the Company's Form 8-K filed January 31, 2005 and incorporated by reference herein.
- 4.9 Form of Placement Agent Warrants dated January 25, 2005 filed as Exhibit 10.5 to the Company's Form 8-K filed January 31, 2005 and incorporated by reference herein.

- 4.10 Form of Note for Stock Purchase Agreement in Exhibit 2.3 herein filed as Exhibit 10.1 to the Company's Form 8-K filed September 8, 2005 and incorporated by reference herein.
- 4.11 Form of 10% Promissory Note filed as Exhibit 10.3 to the Company's Form 8-K filed September 8, 2005 and incorporated by reference herein.
- 4.12 Form of Investor Warrant filed as Exhibit 10.4 to the Company's Form 8-K filed September 8, 2005 and incorporated by reference herein.
- 4.13 Form of Indenture Agreement filed as Exhibit 10.5 to the Company's Form 8-K filed September 8, 2005 and incorporated by reference herein.
- 4.14 Form of Warrant. Filed as Exhibit 10.1 to the Company's Form 8-K filed February 22, 2007 and incorporated by reference herein.
- 4.15 Form of 11% Senior Secured Convertible Promissory Note dated August 8, 2007. Filed as Exhibit 10.2 to the Company's Form 8-K filed August 14, 2007 and incorporated by reference herein.
- 4.16 Form of Indenture dated August 8, 2007. Filed as Exhibit 10.3 to the Company's Form 8-K filed August 14, 2007 and incorporated by reference herein.
- 4.17 Form of Warrant dated August 8, 2007. Filed as Exhibit 10.5 to the Company's Form 8-K filed August 14, 2007 and incorporated by reference herein.
- 4.18 Final form of 11% Senior Secured Convertible Promissory Note dated August 8, 2007. Filed as Exhibit 4.18 to the Company's Form 10-K for the fiscal year ended June 30, 2007 and incorporated by reference herein.
- 4.19 Form of Promissory Note dated November 19, 2007. Filed as Exhibit 4.1 to the Company's Form 8-K filed November 23, 2007 and incorporated by reference herein.
- 4.20 Form of Allonge – Amendment to Promissory Note dated November 19, 2007. Filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended December 31, 2007 filed February 14, 2008 and incorporated by reference herein.
- 4.21 Form of 12% Unsecured Convertible Promissory Note dated September 2, 2008. Filed as Exhibit 4.1 to the Company's Form 8-K filed September 8, 2008 and incorporated by reference herein.
- 4.22 Form of Convertible Promissory Notes. Filed as Exhibit 4.1 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.1 Registrant's 1996 Stock Option Plan filed as Exhibit 10.2 to the Company's Registration Statement on Form SB-2 (No. 333-1154) and incorporated by reference herein.
- 10.2 2000 Stock Option Plan filed as Exhibit 10.6 to the Company's Form 10-K for the fiscal year ended January 31, 2001 and incorporated by reference herein.

- 10.5 2001 Directors Stock Option Plan filed as Appendix A to the Company's Proxy Statement for the Annual Meeting of Stockholders on December 9, 2004 and incorporated by reference herein.
- 10.6 Loan and Security Agreement with Congress Financial Corporation dated September 26, 2002 filed as Exhibit 99.1 to the Company's Form 8-K filed September 30, 2002 and incorporated by reference herein.
- 10.7 First Amendment to Loan and Security Agreement with Congress Financial Corporation dated March 31, 2003 filed as Exhibit 10.13 to the Company's Form 10-K for the fiscal year ended June 30, 2003 and incorporated by reference herein.
- 10.8 Security Agreement with The Bank of Cherry Creek dated August 29, 2003 filed as Exhibit 10.14 to the Company's Form 10-K for the fiscal year ended June 30, 2003 and incorporated by reference herein.
- 10.9 Second Amendment to Loan and Security Agreement with Congress Financial Corporation dated August 29, 2003 filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2003 and incorporated by reference herein.
- 10.10 Third Amendment to Loan and Security Agreement with Congress Financial Corporation dated August 3, 2003 filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended December 31, 2004 and incorporated by reference herein.
- 10.11 Form of Securities Purchase Agreement dated January 25, 2005 filed as Exhibit 10.1 to the Company's Form 8-K filed January 31, 2005 and incorporated by reference herein.
- 10.12 Fourth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, SMF Services, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated February 18, 2005 filed as Exhibit 10.1 to the Company's Form 8-K filed February 25, 2005 and incorporated by reference herein.
- 10.13 Subordination Agreement by, between and among Shank C&E Investments, L.L.C., Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida), SMF Services, Inc. and SMF Energy Corporation dated February 18, 2005 filed as Exhibit 10.2 to the Company's Form 8-K filed February 25, 2005 and incorporated by reference herein.
- 10.14 Amended and Restated Employment Agreement by and between SMF Energy Corporation and Richard E. Gathright executed May 14, 2005, effective as of March 1, 2005 filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2005, and incorporated by reference herein.
- 10.15 Form of Note Purchase Agreement filed as Exhibit 10.2 to the Company's Form 8-K filed September 8, 2005 and incorporated by reference herein.
- 10.16 Form of Security Agreement filed as Exhibit 10.6 to the Company's Form 8-K filed September 8, 2005 and incorporated by reference herein.

- 10.17 Fifth Amendment to Loan and Security Agreement by among SMF Energy Corporation, SMF Services, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated October 1, 2005. Filed as Exhibit 10.1 to the Company's Form 8-K filed October 6, 2005 and incorporated by reference herein.
- 10.18 Subordination Agreement executed effective as of the 1st day of October, 2005, by, between and among Eugene Wayne Wetzel, Mary Kay Wetzel, Sharon Harkrider, William M. Harkrider II, W. M. Harkrider Testamentary Trust, Harkrider Distributing Company, Inc. and W & H Interests, Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (FLORIDA), and SMF Energy Corporation Filed as Exhibit 10.2 to the Company's Form 8-K filed October 6, 2005 and incorporated by reference herein.
- 10.19 Warrant Purchase Agreement dated June 30, 2006. Filed as Exhibit 10.1 to the Company's Form 8-K filed July 7, 2006 and incorporated by reference herein.
- 10.20 Form of Stock Purchase Warrant. Filed as Exhibit 10.2 to the Company's Form 8-K filed July 7, 2006 and incorporated by reference herein.
- 10.21 Sixth Amendment to Loan and Security Agreement by among SMF Energy Corporation, SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated September 22, 2006 and effective March 31, 2006. Filed as Exhibit 10.1 to the Company's Form 8-K filed October 2, 2006 and incorporated by reference herein.
- 10.22 Seventh Amendment to Loan and Security Agreement by among SMF Energy Corporation, SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) effective September 22, 2006. Filed as Exhibit 10.2 to the Company's Form 8-K filed October 2, 2006 and incorporated by reference herein.
- 10.23 Amendment to Warrant Purchase Agreement and Stock Purchase Warrant between Streicher Mobile Fueling, Inc. and the Purchasers dated September 28, 2006. Filed as Exhibit 10.1 to the Company's Form 8-K filed October 3, 2006 and incorporated by reference herein.
- 10.24 Second Amendment to Warrant Purchase Agreement and Stock Purchase Warrant between Streicher Mobile Fueling, Inc. and the Purchasers dated November 29, 2006. Filed as Exhibit 10.1 to the Company's Form 8-K filed December 4, 2006 and incorporated by reference herein.
- 10.25 Third Amendment to Warrant Purchase Agreement and Stock Purchase Warrant between Streicher Mobile Fueling, Inc. and the Purchasers dated January 14, 2007. Filed as Exhibit 10.1 to the Company's Form 8-K filed January 19, 2007 and incorporated by reference herein.
- 10.26 Assumption Agreement and Eighth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated February 14, 2007. Filed as Exhibit 10.1 to the Company's Form 8-K filed February 21, 2007 and

incorporated by reference herein.

- 10.27 Ninth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated February 15, 2007. Filed as Exhibit 10.2 to the Company's Form 8-K filed February 21, 2007 and incorporated by reference herein.
- 10.28 Fourth Amendment to Warrant Purchase Agreement and Stock Purchase Warrant between SMF Energy Corporation, Triage Capital Management, L.P. and Triage Capital Management B L.P. dated February 14, 2007. Filed as Exhibit 10.3 to the Company's Form 8-K filed February 21, 2007 and incorporated by reference herein.
- 10.29 Form of Securities Purchase Agreement. Filed as Exhibit 10.2 to the Company's Form 8-K filed February 22, 2007 and incorporated by reference herein.
- 10.30 Fifth Amendment to Warrant Purchase Agreement and Stock Purchase Warrant between SMF Energy Corporation, Triage Capital Management, L.P. and Triage Capital Management B L.P. dated March 29, 2007. Filed as Exhibit 10.1 to the Company's Form 8-K filed April 3, 2007 and incorporated by reference herein.
- 10.31 Tenth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated August 8, 2007. Filed as Exhibit 10.1 to the Company's Form 8-K filed August 14, 2007 and incorporated by reference herein.
- 10.32 Form of Security Agreement, dated August 8, 2007. Filed as Exhibit 10.4 to the Company's Form 8-K filed August 14, 2007 and incorporated by reference herein.
- 10.33 Form of Note Purchase Agreement dated August 8, 2007. Filed as Exhibit 10.33 to the Company's Form 10-K for the fiscal year ended June 30, 2007 and incorporated by reference herein.
- 10.34 Form of Securities Purchase Agreement dated August 8, 2007. Filed as Exhibit 10.34 to the Company's Form 10-K for the fiscal year ended June 30, 2007 and incorporated by reference herein.
- 10.35 Subordination Agreement dated July 13, 2007. Filed as Exhibit 10.33 to the Company's Form 10-K for the fiscal year ended June 30, 2007 and incorporated by reference herein.
- 10.36 Eleventh Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated October 31, 2007. Filed as Exhibit 10.1 to the Company's Form 8-K filed November 2, 2007 and incorporated by reference herein.

- 10.37 Form of Subordination Agreement dated November 19, 2007. Filed as Exhibit 10.1 to the Company's Form 8-K filed November 23, 2007 and incorporated by reference herein.
- 10.38 Form of Subordination Agreement dated November 19, 2007. Filed as Exhibit 10.2 to the Company's Form 8-K filed November 23, 2007 and incorporated by reference herein.
- 10.39 Twelfth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated November 21, 2007. Filed as Exhibit 10.3 to the Company's Form 8-K filed November 23, 2007 and incorporated by reference herein.
- 10.40 Thirteenth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated February 8, 2008. Filed as Exhibit 10.1 to the Company's Form 8-K filed February 14, 2008 and incorporated by reference herein.
- 10.41 Fourteenth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated March 6, 2008. Filed as Exhibit 10.1 to the Company's Form 8-K filed March 6, 2008 and incorporated by reference herein.
- 10.42 Form of Exchange Agreement. Filed as Exhibit 10.2 to the Company's Form 8-K filed March 6, 2008 and incorporated by reference herein.
- 10.43 Form of Securities Purchase Agreement. Filed as Exhibit 10.3 to the Company's Form 8-K filed March 6, 2008 and incorporated by reference herein.
- 10.44 Fifteenth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated March 10, 2008. Filed as Exhibit 10.1 to the Company's Form 8-K filed March 14, 2008 and incorporated by reference herein.
- 10.45 Form of Exchange Agreement. Filed as Exhibit 10.2 to the Company's Form 8-K filed March 14, 2008 and incorporated by reference herein.
- 10.46 Form of Securities Purchase Agreement. Filed as Exhibit 10.1 to the Company's Form 8-K filed August 21, 2008 and incorporated by reference herein.
- 10.47 Sixteenth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida) dated September 2, 2008. Filed as Exhibit 10.1 to the Company's

Form 8-K filed September 8, 2008 and incorporated by reference herein.

- 10.48 Seventeenth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc. SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation (Florida), dated September 17, 2008. Filed as Exhibit 10.48 to the Company's Form 10-K filed September 19, 2008 and incorporated by reference herein.
- 10.49 Form of Subordination Agreement. Filed as Exhibit 10.2 to the Company's Form 8-K filed September 8, 2008 and incorporated by reference herein.
- 10.50 Form of Securities Purchase Agreement. Filed as Exhibit 10.3 to the Company's Form 8-K filed September 8, 2008 and incorporated by reference herein.
- 10.51 SMF Energy Corporation 2001 Director Stock Option Plan (incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A, filed on September 24, 2008).
- 10.52 SMF Energy Corporation 2000 Stock Option Plan (incorporated by reference to Appendix C to the Company's Definitive Proxy Statement on Schedule 14A, filed on September 24, 2008).
- 10.53 Form of Interest Deferral Agreement. Filed as Exhibit 10.1 to the Company's Form 8-K filed on February 9, 2009 and incorporated by reference herein.
- 10.54 Form of Payment in Kind Agreement. Filed as Exhibit 10.1 to the Company's Form 8-K filed on May 8, 2009 and incorporated by reference herein.
- 10.55 Eighteenth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor-by-merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wachovia Bank, National Association, successor-by-merger to Congress Financial Corporation (Florida) dated June 29, 2009. Filed as Exhibit 10.1 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.56 Form of Debt Subordination Agreement. Filed as Exhibit 10.2 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.57 Form of Exchange Agreement (Series A for Common Stock). Filed as Exhibit 10.3 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.58 Form of Exchange Agreement (Series B for Common Stock). Filed as Exhibit 10.4 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.59 Form of Exchange Agreement (Series C for Common Stock). Filed as Exhibit 10.5 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.60 Form of Exchange Agreement (Unsecured Note for Common Stock). Filed as Exhibit 10.6 to the Company's Form 8-K filed on July 6, 2009 and

incorporated by reference herein.

- 10.61 Form of Payment and Exchange Agreement (Unsecured Note for Cash and Series D Preferred). Filed as Exhibit 10.7 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.62 Form of Payment and Exchange Agreement (Secured Note for Cash and Common Stock). Filed as Exhibit 10.8 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.63 Form of Payment and Exchange Agreement (Secured Note for Cash and Common Stock). Filed as Exhibit 10.9 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.64 Form of Payment and Exchange Agreement (Secured Note for Cash, Series D Preferred and Common Stock). Filed as Exhibit 10.10 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.65 Form of Payment and Exchange Agreement (Secured Note for Cash and New Unsecured Note). Filed as Exhibit 10.11 to the Company's Form 8-K filed on July 6, 2009 and incorporated by reference herein.
- 10.66 Amended and Restated Employment Agreement by and between SMF Energy Corporation and Richard E. Gathright executed effective September 23, 2010. Filed as Exhibit 10.66 to the Company's Form 10-Q filed November 15, 2010 and incorporated by reference herein.
- 10.67 SMF Energy Corporation 2009 Equity Incentive Plan. Filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed on October 28, 2009, and incorporated by reference herein.
- 10.68 Amendment 1 to SMF Energy Corporation 2009 Equity Incentive Plan. Filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed on November 24, 2009, and incorporated by reference herein.
- *10.69 Nineteenth Amendment to Loan and Security Agreement by and among SMF Energy Corporation, successor by merger to Streicher Mobile Fueling, Inc., SMF Services, Inc., H & W Petroleum Company, Inc. and Wells Fargo Bank, National Association, successor by merger to Wachovia Bank, National Association, dated September 27, 2011.
- *21.1 Subsidiaries of the Company
- *23.1 Consent of Grant Thornton LLP
- *31.1 Certificate of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31.2 Certificate of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *32.1 Certificate of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

*Filed herewith

SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: September 28, 2011

SMF ENERGY CORPORATION

By: /s/ Richard E. Gathright
Richard E. Gathright, Chief Executive Officer and
President

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
By: <u>/s/ Richard E. Gathright</u> Richard E. Gathright	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	September 28, 2011
By: <u>/s/ Michael S. Shore</u> Michael S. Shore	Chief Financial Officer, Treasurer and Senior Vice President (Principal Financial Officer)	September 28, 2011
By: <u>/s/ Laura Patricia Messenbaugh</u> Laura Patricia Messenbaugh	Chief Accounting Officer and Vice President (Principal Accounting Officer)	September 28, 2011
By: <u>/s/ Wendell R. Beard</u> Wendell R. Beard	Director	September 28, 2011
By: <u>/s/ Steven R. Goldberg</u> Steven R. Goldberg	Director	September 28, 2011
By: <u>/s/ Nat Moore</u> Nat Moore	Director	September 28, 2011
By: <u>/s/ Larry S. Mulkey</u> Larry S. Mulkey	Director	September 28, 2011
By: <u>/s/ C. Rodney O'Connor</u> C. Rodney O'Connor	Director	September 28, 2011
By: <u>/s/ Robert S. Picow</u> Robert S. Picow	Director	September 28, 2011
By: <u>/s/ Peter H. Woodward</u> Peter H. Woodward	Director	September 28, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
SMF Energy Corporation

We have audited the accompanying consolidated balance sheets of SMF Energy Corporation (a Delaware Corporation) and subsidiaries (the “Company”) as of June 30, 2011 and 2010, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SMF Energy Corporation and subsidiaries as of June 30, 2011 and 2010, and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Fort Lauderdale, Florida
September 28, 2011

SMF ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in 000's, except share and per share data)

	June 30, 2011	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 87	\$ 115
Accounts receivable, net of allowances for doubtful accounts	20,872	17,530
Inventories	2,125	1,744
Prepaid expenses and other current assets	706	644
Total current assets	23,790	20,033
Property and equipment, net of accumulated depreciation	7,083	7,226
Identifiable intangible assets, net of accumulated amortization	1,455	1,662
Goodwill	228	228
Deferred debt costs, net of accumulated amortization	200	355
Other assets	763	74
Total assets	\$ 33,519	\$ 29,578
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of credit payable	\$ -	\$ 6,896
Current portion of long-term debt	1,000	1,000
Accounts payable	9,361	7,301
Accrued expenses and other liabilities	3,668	3,191
Total current liabilities	14,029	18,388
Long-term liabilities:		
Line of credit payable	7,921	-
Loans, net of current portion	2,083	3,083
Promissory notes	800	800
Other long-term liabilities	685	251
Total liabilities	25,518	22,522
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.01 par value; 5,000 Series D shares authorized, 599 issued and outstanding	-	-
Common stock, \$0.01 par value; 50,000,000 shares authorized; 8,366,578 and 8,557,314 issued and outstanding, respectively	84	86
Additional paid-in capital	36,341	36,657
Accumulated deficit	(28,424)	(29,687)
Total shareholders' equity	8,001	7,056
Total liabilities and shareholders' equity	\$ 33,519	\$ 29,578

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

SMF ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in 000's, except share and per share data)

	Years Ended June 30,	
	2011	2010
Petroleum product sales and service revenues	\$ 211,639	\$ 169,313
Petroleum product taxes	24,784	23,534
Total revenues	236,423	192,847
Cost of petroleum product sales and service	194,925	154,117
Petroleum product taxes	24,784	23,534
Total cost of sales	219,709	177,651
Gross profit	16,714	15,196
Selling, general and administrative expenses	14,363	13,745
Operating income	2,351	1,451
Interest expense	(921)	(978)
Interest and other income	59	24
Income before income taxes	1,489	497
Income tax expense	(226)	(32)
Net income	\$ 1,263	\$ 465
Basic net income per share computation:		
Net income	\$ 1,263	\$ 465
Less: Preferred stock dividends	(13)	(13)
Net income attributable to common shareholders	\$ 1,250	\$ 452
Net income per share attributable to common shareholders:		
Basic	\$ 0.15	\$ 0.05
Diluted	\$ 0.15	\$ 0.05
Weighted average common shares outstanding:		
Basic	8,484	8,480
Diluted	8,708	8,692

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

SMF ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in 000's, except share and per share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Series D Shares	Amount	Shares	Amount			
Balance at June 30, 2009	3,229	\$ -	7,963,302	\$ 80	\$ 36,601	\$ (30,152)	\$ 6,529
Net income	-	-	-	-	-	465	465
Conversion of Series D Preferred stock to common stock	(2,630)	-	594,012	6	(6)	-	-
Recapitalization costs	-	-	-	-	(115)	-	(115)
Series D preferred stock dividends	-	-	-	-	(13)	-	(13)
Stock-based compensation amortization expense	-	-	-	-	190	-	190
Balance at June 30, 2010	599	\$ -	8,557,314	\$ 86	\$ 36,657	\$ (29,687)	\$ 7,056
Net income	-	-	-	-	-	1,263	1,263
Repurchase and retirement of common stock	-	-	(247,236)	(2)	(383)	-	(385)
Issuance cost related to repurchase of common stock	-	-	-	-	(10)	-	(10)
Issuance of common shares as stock-based compensation	-	-	56,500	-	77	-	77
Series D preferred stock dividends	-	-	-	-	(13)	-	(13)
Stock-based compensation amortization expense	-	-	-	-	13	-	13
Balance at June 30, 2011	599	\$ -	8,366,578	\$ 84	\$ 36,341	\$ (28,424)	\$ 8,001

The accompanying notes to the consolidated financial statements are an integral part of these consolidated statements of shareholders' equity.

SMF ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in 000's)

	Years Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,263	\$ 465
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization within:		
Cost of sales	812	890
Selling, general and administrative	1,143	1,268
Amortization of deferred debt costs	155	168
Amortization of stock-based compensation	90	190
Write-off of unamortized acquisition costs	-	187
Gain from sale of assets	(12)	(3)
Inventory (recovery) reserve provision	(4)	17
Provision for doubtful accounts	527	335
Changes in operating assets and liabilities:		
Increase in accounts receivable	(4,502)	(1,987)
(Increase) decrease in inventories, prepaid expenses and other assets	(435)	132
Increase in accounts payable and other liabilities	2,127	805
Net cash provided by operating activities	1,164	2,467
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, software and equipment	(739)	(415)
Proceeds from sale of equipment	27	3
Net cash used in investing activities	(712)	(412)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	236,536	199,195
Repayments of line of credit	(235,511)	(200,144)
Principal payments on term loan	(1,000)	(917)
Repurchase and retirement of common stock	(385)	-
Capital lease payments	(97)	(62)
Payment of preferred stock dividends	(13)	-
Common stock, preferred stock, and warrants issuance costs	(10)	(115)
Debt issuance costs	-	(20)
Net cash used in financing activities	(480)	(2,063)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(28)	(8)
CASH AND CASH EQUIVALENTS, beginning of period	115	123
CASH AND CASH EQUIVALENTS, end of period	\$ 87	\$ 115

The accompanying notes to the consolidated financial statements are an integral part of these consolidated statements of cash flows.

SMF ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in 000's)

(Continued)

	Years Ended June 30,	
	2011	2010
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 788	\$ 765
Cash paid for income tax	\$ 135	\$ 37
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:		
Capital leases	\$ 882	\$ 43
Accrued dividend related to Preferred Stock D	\$ 13	\$ 13
Issuance of common stock in exchange for Preferred Stock D	\$ -	\$ 1,051

The accompanying notes to the consolidated financial statements are an integral part of these consolidated statements of cash flows.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

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

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

At June 30, 2011, the Company was conducting operations through 34 service locations in the eleven states of Alabama, California, Florida, Georgia, Louisiana, Mississippi, Nevada, North Carolina, South Carolina, Tennessee and Texas.

2. CONDENSED SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Reverse Stock Split

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

Segment Information

The Company follows Accounting Standards Codification (ASC) 280, “*Segment Reporting*”, to report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company’s chief operating decision maker currently evaluates the Company’s operations from a number of different operational perspectives including but not limited to geographic location. Although the Company records revenue by type of service, management does not assign and/or allocate specific resources and assets to these services. The Company’s assets are used interchangeably for the different types of services; as a result, earnings information related to each type of service is limited.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reports reviewed by management based on geographic location are prepared for ease of review. However, these geographic areas have similar economic characteristics in regards to the nature of the products and services, nature of processes, type of customers, methods used to distribute the products, and the nature of the regulatory environment. As a result, many business decisions are based on consolidated metrics such as total gallons sold, net margin per total gallons sold, gross margin per total gallons sold, and other consolidated results. Due to the nature of the business, at June 30, 2011 and 2010, the Company had only one reportable segment of business: distribution of petroleum products from integrated out-sourced management services. Nevertheless, management evaluates, at least quarterly, whether the Company continues to have one single reportable segment.

Cash and Cash Equivalents

At June 30, 2011 and 2010, the total cash and cash availability was approximately \$6.7 million and \$4.7 million, respectively, and was approximately \$5.9 million on September 21, 2011. Total cash and cash availability includes cash and cash equivalents as presented in the Company's balance sheet and cash available to the Company through its line of credit, described in Note 4 – Loan Facility.

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

Accounts Receivable

Accounts receivable mainly consist of amounts due from customers within a diverse range of industries and are generally unsecured. The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that will not be collected. The Company periodically reviews the accounts receivable aging for delinquent accounts and provides for credit losses based on management's evaluation of collectability including current and historical performance, credit worthiness and experience of each customer. Uncollectible accounts receivables are written off against the allowance for doubtful accounts when a settlement is reached for an amount less than the outstanding balance or when the Company determines that the balance will not be collected.

Activity in the allowance for doubtful accounts for the indicated periods is as follows (in thousands):

	June 30,	
	2011	2010
Balance - <i>beginning of period</i>	\$ 1,025	\$ 1,038
Provision for doubtful accounts	527	335
Write-offs, net of recoveries	(541)	(348)
Balance - <i>end of period</i>	\$ 1,011	\$ 1,025

Inventories

Inventories, consisting primarily of lubricants, chemicals, diesel fuel and gasoline, are stated at the lower of cost or market and include federal and state petroleum product taxes payable to vendors. Cost is determined using the first-in, first-out method.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Ordinary maintenance, repairs and replacement parts are expensed as incurred. Improvements that significantly increase the value or useful life of property and equipment are capitalized. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of the useful life of the assets or the lease term using the straight-line method. Depreciation expense for property and equipment and leasehold improvements was \$1.7 million and \$1.8 million, for the years ended June 30, 2011 and 2010, respectively.

Property and equipment dollar values (in thousands) and their estimated useful lives were as follows at the indicated dates:

	June 30,		Estimated Useful Life
	2011	2010	
Fuel trucks, tanks and vehicles	\$ 18,169	\$ 17,380	5 – 25 years
Software development / ERP	4,198	3,863	5 years
Machinery, equipment and software	1,893	1,687	3 – 5 years
Furniture and fixtures	602	602	5 – 10 years
Leasehold improvements	678	574	Lesser of lease term or useful life
Land	67	67	--
Total property and equipment	25,607	24,173	
Less: Accumulated depreciation	<u>(18,524)</u>	<u>(16,947)</u>	
Property and equipment, net	<u>\$ 7,083</u>	<u>\$ 7,226</u>	

In accordance with ASC 350-40, “*Intangibles – Goodwill and Other – Internal-Use Software*”, the Company capitalized certain costs used in the development of internal use software. These costs include external software and consulting costs that were incurred as a result of the costs associated with the implementation, coding and software configuration. At June 30, 2011 and 2010, the capitalized costs related to internal use software were \$4.2 million and \$3.9 million, respectively. During fiscal years 2011 and 2010, the Company capitalized \$335,000 and \$173,000 of software related costs, respectively.

Income Taxes

The provision for income taxes and corresponding balance sheet accounts are determined in accordance with ASC 740, “*Income Taxes*” (“ASC 740”). Under ASC 740, deferred tax assets and liabilities are determined based on the temporary differences between the bases of certain assets and liabilities for income tax and financial reporting purposes. The deferred tax assets and liabilities are classified according to the financial statement classification of the net assets and liabilities generating the differences. The Company provides a valuation allowance for the portion of deferred tax assets, which it cannot determine is more likely than not to be recognized.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As required by the provisions of ASC 740, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

At June 30, 2011 and 2010, the amount of unrecognized tax benefits was approximately \$620,000 and \$695,000, respectively, of which approximately \$137,000 and \$268,000, respectively, would, if recognized, be permanent in nature for each respective tax year. The Company has not recognized this liability on the balance sheet due to the Company's net operating loss carryforward.

Although the Company generated net income in fiscal years 2011 and 2010, no provision for federal income taxes nor interest and penalties have been accrued due to the availability of net operating loss carryforwards.

The Company and its subsidiaries file a consolidated federal income tax return in the U.S. federal jurisdiction and it is subject to certain income taxes in various states and other local jurisdictions.

Revenue Recognition

The Company recognizes revenues on the date that its petroleum and other products are distributed and services are rendered, and the customer takes ownership and assumes risk of loss, provided that collections are reasonably assured.

If the Company bears the risk of loss, the Company accounts for petroleum product taxes charged to its customers that are assessed from government authorities, on a gross basis, in accordance with ASC 605-45 "*Revenue Recognition – Principal Agent Considerations*". Sales taxes charged to customers are presented on a net basis.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. These assumptions, if not realized, could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's estimates.

Fair Value of Financial Instruments

In fiscal 2010, the Company adopted ASC 825 *Financial Instruments*, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels that distinguish between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The level in the fair value hierarchy within which the respective fair value measurement falls is determined based on the lowest level input that is significant to the measurement in its entirety. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities, and Level 2 inputs are other than quotable market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data. Level 3 inputs are unobservable inputs for the assets or liabilities that reflect management's own assumptions about the assumptions market participants would use in pricing the asset or liability.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's financial instruments, primarily consisting of cash and cash equivalents, accounts receivable and accounts payable, approximate fair value due to the short-term maturity of these instruments. The line of credit, promissory notes and long-term debt approximate fair value as the borrowing rates current in the market that would be available to the Company for bank loans and average maturities are similar to those currently in place for the Company and recorded in our financial statements.

Deferred Debt Costs

The Company amortizes any outstanding deferred debt costs as interest expense under the effective interest method over the respective term of the debt issued. Activity related to the deferred debt costs were as follows (in thousands):

	June 30,	
	2011	2010
<u>Deferred Debt Costs</u>		
Balance, net - <i>beginning of period</i>	\$ 355	\$ 503
Amortization	(155)	(168)
Additional debt costs incurred during the year	-	20
Balance, net - <i>end of period</i>	\$ 200	\$ 355

Accumulated amortization of deferred debt costs was \$323,000 at June 30, 2011 and \$168,000 at June 30, 2010.

Net Income Per Share attributable to Common Shareholders

As of June 30, 2011, there were 8,366,578 issued and outstanding shares. Basic net income per share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during each year.

Diluted earnings per share is computed by dividing net earnings attributable to common shareholders by the weighted average number of common shares outstanding, increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Conversion or exercise of the potential common shares is not reflected in diluted earnings per share unless the effect is dilutive. The dilutive effect, if any, of outstanding common share equivalents is reflected in diluted earnings per share by application of the if-converted and the treasury stock method, as applicable. In determining whether outstanding stock options and common stock warrants should be considered for their dilutive effect, the average market price of the common stock for the period has to exceed the exercise price of the outstanding common share equivalent.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Diluted net income per share in fiscal years 2011 and 2010 was diluted by additional common stock equivalents as follows (in thousands):

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Incremental shares due to stock options awarded to employees and directors	2	2
Incremental shares due to debt conversion rights	89	-
Incremental shares due to preferred stock conversion rights	<u>133</u>	<u>210</u>
Total dilutive shares	<u><u>224</u></u>	<u><u>212</u></u>

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Stock options	229	416
Common stock warrants	141	141
Incremental shares due to debt conversion rights	<u>-</u>	<u>89</u>
Total common stock equivalents outstanding	<u><u>370</u></u>	<u><u>646</u></u>

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

	<u>For the Fiscal Year Ended,</u>					
	<u>June 30, 2011</u>			<u>June 30, 2010</u>		
	<u>Earnings</u>	<u>Weighted Average Common Shares</u>	<u>Per Share Amount</u>	<u>Earnings</u>	<u>Weighted Average Common Shares</u>	<u>Per Share Amount</u>
Net income	\$ 1,263			\$ 465		
Less: Preferred stock dividends	(13)			(13)		
Basic net income per share attributable to common shareholders	<u>\$ 1,250</u>	8,484	<u>\$ 0.15</u>	<u>\$ 452</u>	8,480	<u>\$ 0.05</u>
Effect of dilutive securities:						
Stock options	-	2		-	2	
Preferred stock conversion rights	13	133		-	210	
Debt conversion rights	<u>11</u>	<u>89</u>		<u>-</u>	<u>-</u>	
Diluted net income per share attributable to common shareholders	<u><u>\$ 1,274</u></u>	<u><u>8,708</u></u>	<u><u>\$ 0.15</u></u>	<u><u>\$ 452</u></u>	<u><u>8,692</u></u>	<u><u>\$ 0.05</u></u>

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 11, 2011, the Company's Board of Directors extended the exercise period for certain of the Company's outstanding common stock purchase warrants (the "Warrants"). The Warrants were originally issued by the Company in connection with private placements of debt and equity securities in February 2007 (the "February 2007 Warrants") and August 2007 (the "August 2007 Warrants") and were scheduled to expire on February 15, 2011 and August 8, 2011, respectively.

There are 123,297 February 2007 Warrants currently outstanding, each bearing an exercise price of \$8.55 per share. The exercise period for the February 2007 Warrants, which was scheduled to expire on February 15, 2011, was extended by the Board's action for two years, or until February 15, 2013.

The 17,575 August 2007 Warrants currently outstanding bear an exercise price of \$7.884 per share. The exercise period for the August 2007 Warrants, which was scheduled to expire on August 8, 2011, was also extended for two years, or until August 8, 2013.

Restricted Stock Grants. On September 23, 2011 the Company's Compensation Committee, (the "Committee" granted 153,500 restricted shares of its common stock to certain officers of the Company, which will vest over three years.

Impairment or Disposal of Long-Lived Assets

In accordance with the provisions of ASC 360, "*Property, Plant, and Equipment*" ("ASC 360"), the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to forecasted future undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge would be recognized by the amount that the carrying amount of the asset exceeds the fair value of the asset based on the projected net cash flows discounted at a rate commensurate with the risk of the asset. Assets to be disposed of are reported at the lower of their carrying amount or fair value less costs to sell. During the fiscal years ended June 30, 2011 and 2010, no impairment was recorded with respect to long-lived assets.

Identifiable Intangible Assets and Goodwill

In accordance with ASC 350, "*Intangibles – Goodwill and Other*" ("ASC 350"), the Company does not amortize goodwill and intangible assets with indefinite lives, but instead measures for impairment at least annually or when events indicate that an impairment exists. As required by ASC 350, the Company compares the fair value of the applicable reporting unit to its carrying value.

Intangible assets that are determined to have finite lives are amortized over their useful lives and are measured for impairment only when events or circumstances indicate the carrying value may be impaired in accordance with ASC 350, discussed above. During the fiscal years ended June 30, 2011 and 2010, no impairment was recorded.

Asset Retirement Obligation

The Company accounts for asset retirement obligations in accordance with the provisions of ASC 410, "*Asset Retirement and Environmental Obligations*". This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. Retirement is defined as the other-than-temporary removal of a long-lived asset from service. The term encompasses a sale, abandonment, recycling or disposal in some other manner.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In fiscal year 2005, in connection with its acquisition of H & W Petroleum Company, Inc., the Company recorded an estimated liability for the removal and clean-up of three underground fuel storage tanks held by H & W, estimating the remaining useful life of those tanks to be ten years. As part of the June 30, 2011 settlement of the litigation arising from the H & W acquisition, discussed in Note 11, Commitments and Contingencies—Litigation, the Company was relieved from the liability for these asset retirement obligations. At June 30, 2010, the liability was \$158,000, which was classified as other long-term liabilities in the accompanying Consolidated Balance Sheets. In fiscal years 2011 and 2010, the Company recorded accretion expense of \$13,000, and \$11,000, respectively. See Note 13 – Settlement Receivable.

Stock-Based Compensation

As per ASC 718, *Compensation - Stock Compensation*, the Company expenses the grant-date fair value of stock options and other equity-based compensation granted to employees. Amortization of stock compensation expense for the fiscal years ended June 30, 2011 and 2010 was \$90,000 and \$190,000, respectively, and is included in selling, general and administrative expenses in the Consolidated Statements of Operations.

Recent Accounting Pronouncements

Accounting for Transfers of Financial Assets

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

In June 2009, the FASB issued FAS Statement No. 166, “*Accounting for Transfers of Financial Assets, an amendment to FAS No. 140*” (“FAS No. 166”). FAS No. 166 eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets including limiting the circumstances in which a company can derecognize a portion of a financial asset, and requires additional disclosures. FAS No. 166 is effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company’s adoption of this standard in the first quarter of fiscal 2011 had no impact on the Company’s consolidated financial condition, results of operations or cash flows.

Fair Value Measurement and Disclosures Topic 820 – Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued the FASB Accounting Standards Update No. 2010-06 “*Fair Value Measurement and Disclosures Topic 820 – Improving Disclosures about Fair Value Measurements*” (“ASU No. 2010-06”), which provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures – Overall, for the fair value measurement of liabilities. This update provides amendments to Topic 820 that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The new disclosures and clarification of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlement in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company’s adoption of the ASU No. 2010-06 in the first quarter of fiscal 2011 did not have an impact on the Company’s consolidated financial position, results of operations or cash flows.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

The following table summarizes the Company's identifiable intangible assets and goodwill balances as of June 30, 2011 and 2010 (in thousands):

	June 30,						Amortization Period (Years)
	2011			2010			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Amortized intangible assets:							
Customer relationships	\$ 1,768	\$ 736	\$ 1,032	\$ 1,768	\$ 625	\$ 1,143	15
Favorable leases	196	196	-	196	186	10	5
Trademarks	687	264	423	687	218	469	15
Supplier contracts	801	801	-	801	761	40	5
Total	\$ <u>3,452</u>	\$ <u>1,997</u>	\$ <u>1,455</u>	\$ <u>3,452</u>	\$ <u>1,790</u>	\$ <u>1,662</u>	
Goodwill			\$ <u>228</u>			\$ <u>228</u>	

Amortization expense is computed using the straight-line method over the useful lives of the assets. Amortization expense for the years ended June 30, 2011 and 2010 was \$207,000 and \$357,000, respectively. Amortization expense for the five succeeding fiscal years and thereafter is as follows (in thousands):

Year ending June 30,	Amortization
2012	\$ 157
2013	157
2014	157
2015	157
2016	157
Thereafter	<u>670</u>
Total	\$ <u>1,455</u>

4. LOAN FACILITY

At June 30, 2011, the Company had a \$25.0 million loan facility, comprised of a three-year \$20.0 million asset-based lending revolving line of credit coupled with a \$5.0 million, 60 month, fully amortized term loan that is co-terminus with the asset based lending revolving line of credit on a first to occur basis. The Company's \$20.0 million line of credit had a maturity date of July 1, 2012. The line of credit permits the Company to borrow up to 85% of the total amount of eligible accounts receivable and 65% of eligible inventory, both as defined. Outstanding stand-by letters of credit reduce the maximum amount available for borrowing. Outstanding borrowings under the loan facility are secured by substantially all Company assets.

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Interest was payable monthly based on a LIBOR rate and a pricing matrix. At June 30, 2011, the interest rate for the line of credit was 4.00%. This rate was priced using a minimum LIBOR floor of 0.75%, plus the applicable margin of 3.25%.

On September 27, 2011, the Company amended and extended its loan facility with its principal lender with significant improvements in the terms. The loan facility was increased to \$29.1 million from \$25.0 million, comprised now of a \$25.0 million revolver, a \$2.8 million, 60 month, fully amortized term loan, and a fifteen-year amortization mortgage available for up to \$1.3 million which mortgage when closed is expected to be \$1.057 million. Both the term loan and the mortgage are co-terminus with the revolving line of credit whichever occurs first. The amendment included a 5 year renewal and improved interest rates lowering the current line of credit's rate from 4.00% to 2.61% and its term loan's rate from 4.75% to 2.86%. As a result of the amendment, the line of credit is now classified as a long-term liability thus increasing the working capital by approximately \$7.9 million. The line of credit now has a renewal date of September 27, 2016. Interest is payable monthly based on a pricing matrix. At September 27, 2011, the interest rate for the line of credit was 2.61%. This rate was priced using 90 day LIBOR of 0.36%, plus the applicable margin of 2.25%. The applicable margin is determined quarterly based on a predetermined fixed charge coverage ratio pricing matrix with the applicable margins ranging from 2.00% to 3.00%.

As of June 30, 2011 and 2010, the Company had outstanding borrowings of \$7.9 million and \$6.9 million, respectively, under its line of credit, which does not include stand-by letters of credit which reduce the availability. As a result of the September 2011 renewal, the line of credit at June 30, 2011 is classified as long-term liability in accordance with ASC 470, Debt as now the Company has control of funds that the bank relinquished except in the event of a default whereby if such default exists then the Company would be required to pass control of funds back to the bank under a springing lockbox arrangement. Based on eligible receivables and inventories, and reduction from letters of credit outstanding at June 30, 2011 and 2010, the Company had \$6.6 million and \$4.6 million of cash availability under the line of credit, respectively. The line of credit primarily enables the Company to satisfy its obligations during the time gap created between the payment for its petroleum products and the time when it collects this cost from its customers. As such, due to the volatile nature of the petroleum products, the outstanding borrowings fluctuate as the petroleum market prices change in addition to changes in demand from its customers.

The line of credit provides for certain affirmative and negative covenants that may limit the total availability based upon the Company's ability to meet these covenants. At June 30, 2011, the financial covenants included a minimum daily availability of \$250,000, a fixed charge coverage ratio of 1.1 to 1.0, and a capital expenditure limitation for fiscal year 2011 of \$750,000. At June 30, 2011 and 2010, the Company had a sublimit for letters of credit under its then \$20.0 million line of credit of \$1.75 million, on both dates. At June 30, 2011 and 2010, \$1.2 million and \$1.5 million, respectively, had been issued in letters of credit. The line of credit was not limited at any time during either period by these covenants.

The Company's loan agreement for the line of credit and the term loan requires the Company to obtain the consent of the lender prior to incurring additional debt, paying any cash dividends or distributions, repurchasing shares of its capital stock or entering into mergers, consolidations or sales of assets outside the ordinary course of business. Failure to comply with one or more of the covenants in the future could affect the amount the Company can borrow and thereby adversely affect the Company's liquidity and financial condition. The Company's principal lender granted its consent to the repurchase stock program that was in effect during fiscal year 2011 and to the quarterly dividend program approved in August 2011, which consents were required by the Company's loan agreement. See Note 7 – Shareholders' Equity. At June 30, 2011, the Company was in compliance with its covenants under the loan facility agreement. See Note 5 – Long-Term Debt for further details on the \$5.0 million term loan which balance was \$3.083 million at June 30, 2011.

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5. LONG-TERM DEBT (INCLUDES LOANS AND PROMISSORY NOTES)

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

	As of June 30,	
	2011	2010
June 2009 term loan (the "Term Loan"), fully amortized, 60 monthly principal payments of approximately \$83,333 commencing on August 1, 2009; variable interest due monthly, 4.75% at June 30, 2011; secured by substantially all Company assets and subject to co-terminus provisions under the revolving line of credit.	\$ 3,083	\$ 4,083
June 2009 unsecured convertible subordinated promissory note (the "June 2009 Note") (5.5% interest due semi-annually, January 15 and July 15, beginning January 15, 2011; interest accrued for first 13 months was deferred and paid on August 12, 2010); matures July 1, 2014 in its entirety.	800	800
Line of credit	7,921	-
Total long-term debt	11,804	4,883
Less: current portion	(1,000)	(1,000)
Long-term debt, net	\$ 10,804	\$ 3,883

On June 29, 2009, the Company restructured all of its debt and preferred equity (the "Recapitalization"). In connection therewith, the Company and its principal lender, Wells Fargo (formerly Wachovia Bank, N.A.), amended the Company's existing \$25.0 million loan agreement to provide for a \$25.0 million loan facility, which included a \$5.0 million, fully amortized, 60 month term loan (the "Term Loan") which was co-terminus with the revolving line of credit under the \$25.0 Million Loan Facility terms if such revolver was not extended beyond July 1, 2012. The proceeds of the Term Loan were used to pay down \$4.867 million of certain promissory notes issued in August 2007 ("the August 2007 Notes") and \$125,000 of certain promissory notes issued in September 2008. At June 30, 2011, the variable interest rate on the Term Loan was at 4.75% but reduced to 2.86% at September 27, 2011 as a result of the credit facility renewal discussed above.

In the Recapitalization, the Company also extinguished \$800,000 of the August 2007 Notes through the issuance of a 5.5% interest only, unsecured convertible subordinated promissory note in the principal amount of \$800,000 (the "June 2009 Note"). The June 2009 Note is subordinated to all other existing debt of the Company, including any amounts owed now or in the future to its principal lender. The holder of the June 2009 Note entered into a debt subordination agreement (the "Subordination Agreement") with the Company and its principal lender, whereby it expressly subordinated its rights under the June 2009 Note to its principal lender.

The principal balance of the June 2009 Note is due at maturity on July 1, 2014. Subject to the limitations in the Subordination Agreement, interest is paid semi-annually, except that the interest payment for the first thirteen months was paid on August 12, 2010. Thereafter, semi-annual interest payments are scheduled on or about each January 15th and July 15th. All required interest payments have been paid timely. Unpaid amounts under the June 2009 Note will become due and payable upon the occurrence of customary events of default, provided, however, that the deferral of any payment in accordance with the Subordination Agreement will not constitute an event of default. If permitted under the Subordination Agreement, the Company may pre-pay the June 2009 Note, in whole or in part, without prepayment penalty or premium.

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Twenty-five percent (25%) of the original principal amount of the June 2009 Note, or \$200,000, may be converted into shares of the Company's Common Stock at \$2.25 per share (the "Conversion Price") at the option of the noteholder. The number and kind of securities purchasable upon conversion and the Conversion Price remain subject to additional adjustments for stock dividends, stock splits and other similar events. As of June 30, 2011, there have been no conversions.

As a result of the September 2011 loan facility renewal, the line of credit is classified as long-term debt. See Note 4 – Loan Facility.

Future debt payments

Future debt payments as of June 30, 2011 are (in thousands):

<u>Year Ending June 30,</u>	<u>Debt Payments</u>
2012	\$ 1,000
2013	1,000
2014	1,000
2015	883
2017	<u>7,921</u>
Total	<u><u>\$ 11,804</u></u>

The Term Loan has a maturity date of July 1, 2014 and 60 consecutive payments, however, if the revolving line of credit portion of the loan facility is accelerated, while is unlikely, the remaining payments of the Term Loan would be due at such time. The table above reflects the Term loan through its maturity date of July 1, 2014, since under the September 27, 2011 renewal of the loan facility, the line of credit's maturity was extended through September 27, 2016, which is longer than the Term loan's maturity.

6. CAPITAL LEASE COMMITMENTS

Certain non-cancelable leases are classified as capital leases. The leased assets are included as part of property and equipment, at cost. Such leasing arrangements include machinery, computer equipment and trucks. As of June 30, 2011 and 2010, \$160,000 and \$45,000, respectively, of the capital leases obligations were classified in accrued expenses and other liabilities, and \$685,000 and \$33,000, respectively, were classified in other long-term liabilities. The increase in the amount of capital leases during fiscal 2011 is primarily attributable to the purchase of four new mobile fueling vehicles (similar to the existing specialized tank wagon truck fleet used by the Company). The depreciation of the capital leases is included in depreciation expense.

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Capital assets dollar values (in thousands) were as follows at the indicated dates:

	June 30,	
	2011	2010
Gross value	\$ 1,122	\$ 240
Less: Accumulated depreciation	(268)	(169)
Property and equipment, net	\$ 854	\$ 71

At June 30, 2011, the estimated future minimum lease payments under capital leases are as follows (in thousands):

Year Ending June 30,	Capital Lease Payments
2012	\$ 221
2013	204
2014	163
2015	133
2016	133
Thereafter	193
Total including interest	1,047
Less: Interest	(202)
Total minimum lease payments	\$ 845

7. SHAREHOLDERS' EQUITY

Fiscal Year 2011

On July 28, 2010, the Board of Directors of the Company approved a share repurchase program (the "Program") under which the Company may elect to purchase up to five percent of its outstanding capital stock, or approximately 435,000 shares of common stock or common stock equivalents, with available cash to the extent permitted by its revolving line of credit with its principal lender.

The Company's principal lender's consent to such repurchases was conditioned upon the Company's maintenance of (i) a ratio of EBITDA to Fixed Charges of 1.3 to 1.0, based on the most recent twelve-month period for which financial statements have been provided to the Lender, after giving pro forma effect to any repurchases; and (ii) Excess Availability of at least \$2.25 million (A) immediately after making any repurchase and (B) for the ninety days preceding any repurchase, for a total of \$840,000 in capital stock repurchases, including up to \$200,000 in any one fiscal quarter.

During fiscal 2011, the Company purchased an aggregate of 247,236 shares of its common stock pursuant to the stock repurchase program for an aggregate purchase price of \$385,310 at an average cost of \$1.56 per share.

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The Board of Directors elected to retire all shares repurchased pursuant to the program, so those shares are no longer outstanding and their cost is reflected as a reduction to common stock and Additional Paid-in Capital in the Shareholders' Equity section of the Balance Sheet. The Board of Directors terminated the stock repurchase program in August 2011.

In fiscal year 2011, the Company issued 56,500 shares of common stock valued at an aggregate of \$77,395 consisting of 25,000 shares to non-employee members of the Board of Directors and 31,500 shares to the Company's CEO. See Note 8 – Stock Options and Other Benefits Plans.

During fiscal year 2011, the Company declared cumulative dividends of \$13,000 on the Series D Preferred Stock, which were accrued as of June 30, 2011.

For fiscal year 2011, the Company recorded amortization of stock compensation expense with a correlating increase to shareholders' equity of approximately \$13,000.

Fiscal Year 2010

On July 6, 2009, the Company entered into two additional exchange agreements (the "New Exchange Agreements") with certain holders of the Series D Preferred Stock by which the Holders exchanged 824 shares of Series D Preferred Stock for an aggregate of 192,680 shares of the Company's Common Stock based on an aggregate value of \$329,000. Because the \$1.71 price used in the New Exchange Agreements was not less than the closing bid price for the Common Stock on the Nasdaq Capital Market on the last trading day preceding the July 6, 2009 New Exchange Agreements, the issuance of the additional 36,997 shares resulted in a non-cash inducement on extinguishment of convertible notes of \$166,000 which was recorded in the financial statements for the year ended June 30, 2009.

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

During fiscal 2010, the Company declared cumulative dividends of \$13,000 on the Series D Preferred Stock, which were accrued as of June 30, 2010 and paid during the first quarter of fiscal year 2011.

For the fiscal year 2010, the Company recorded amortization of stock compensation expense with a correlating increase to shareholders' equity of \$190,000. Included in this charge, is a non-cash charge related to the repricing of 327,614 stock options during the first quarter of fiscal year 2010. See Note 8 – Stock Options and Other Benefits Plans.

August 2011 Common Stock Dividend

On August 9, 2011, the Company's Board of Directors approved a quarterly cash dividend program, starting with a dividend of \$0.0125 per share to be paid on October 14, 2011, to shareholders of record as of the close of business on September 28, 2011. Future dividends will be subject to Board of Directors approval. The quarterly dividend program replaced the Company's open market stock repurchase program which has been terminated. The Company's principal lender has granted its consent to the quarterly dividend program, which consent is required by the Company's loan agreement, as amended (the "Loan Agreement"), so long as (a) the Company maintains a ratio of EBITDA to Fixed Charges for the most recent twelve-month period, giving pro forma effect to any dividend payments to be made or already made that are not reflected therein, of at least 1.3 to 1.0, (b) at all times during the 90-day period preceding each dividend payment and after giving pro forma effect to any proposed payments, the Company maintains Excess Availability of not less than \$2,250,000 under the Loan Agreement, (c) aggregate dividends do not exceed \$600,000 per annum, and (d) no Default or Event of Default exists under the Loan Agreement. Capitalized terms are defined in the Loan Agreement.

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Certificates of Designation of Preferred Stock

The Company has authorized the issuance of up to 10,000, 2,000, 2,000 and 5,000 shares of Series A, Series B, Series C, and Series D Preferred Stock (the "Preferred Stock"), respectively, which have such rights, qualifications, limitations and restrictions as are set forth in their respective Certificates of Designation as filed in Delaware. Because of the June 29, 2009 Recapitalization, there are no longer any issued nor outstanding shares of Series A, B or C Preferred.

The Preferred Stock ranks senior to the Common Stock as to both the payment of dividends and the distribution of assets. The Preferred Stock is on parity and will be on parity with the holders of any other series of preferred stock that may be issued in the future. Upon liquidation, dissolution or winding up of the Company, holders of the Preferred Stock are entitled to be paid out of the assets of the Company an amount per share of the Preferred Stock equal to the greater of: (i) the original issue price of the Preferred Stock, plus all accumulated but unpaid dividends; or (ii) the fair market value of the Preferred Stock on an as-converted to Common Stock basis, plus all accumulated but unpaid dividends. If upon liquidation, the assets of the Company are insufficient to make payment in full, then such assets will be distributed ratably in proportion to the full amounts to which each Preferred Stockholder would have been entitled. Each holder of the Preferred Stock is entitled to one vote per share of Preferred Stock at each meeting of shareholders of the Company with respect to any and all matters presented to the shareholders of the Company.

Each share of Series D Preferred Stock is currently convertible, at the option of the holder, into 223 shares of Common Stock based on a conversion price equal to \$1.80 per share of Common Stock. All of the conversion prices of the Preferred Stock are subject to adjustment for stock dividends, stock splits and other similar recapitalization events.

The Company has no automatic conversion rights on the Series D Preferred Stock. The Company may redeem the Preferred Stock at any time, upon ten days notice, by payment of the original issue price plus any accumulated but unpaid dividends. In the event of a partial redemption, the Company is not required to redeem the shares held by various shareholders on a pro rata or similar basis but may select, in its sole discretion, which shares to redeem.

Dividends on the Series D Preferred Stock are payable when, as and if declared by the Board of Directors, but only out of funds that are legally available, at the rate of 5.5% per annum of the sum of the Original Issue Price per share, in cash or, under specified circumstances, in the form of shares of a new class of Preferred Stock that is substantially identical to the Series D Preferred except that it shall be nonvoting ("New Preferred Stock"), if the Company so elects. In particular, the Company may elect to pay dividends of the Series D Preferred in New Preferred Stock if its principal lender at the time has directed or advised the Company not to pay a dividend in cash. Dividends for the Series D Preferred Stock are payable on or about July 15th each year. Dividends on 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.

The Company has declared and paid dividends on the Series D Preferred Stock for both fiscal year 2011 and fiscal year 2010.

8. STOCK OPTIONS AND OTHER BENEFITS PLANS

In December 2009, the Company's shareholders approved the Board of Directors' adoption of the 2009 Equity Incentive Plan (the "2009 Plan") with a total of 900,000 shares of Common Stock reserved for issuance thereunder. The 2009 Plan is a broad type of equity incentive plan that permits equity incentive grants to be made in the form of stock options, stock appreciation rights, performance stock units or restricted stock. The purpose of the 2009 Plan is to further the growth in earning and market appreciation of the Company by providing long-term incentives to those officers, employees and other natural persons providing services to the Company and its affiliates who make substantial contributions to the Company, and to members of the Board of Directors of the Company who

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are not also employees of the Company. After the 2009 Plan was approved by the shareholders and became effective on December 10, 2009, the Company's Board of Directors resolved that it would make no further grants of stock options under any of the Company's prior stock option plans, namely the Company's Board of Directors (the "Directors' Plan") and the 2000 Employee Stock Option Plan (the "2000 Plan").

Share-Based Compensation

The Company currently has the authority to grant stock options and other equity awards to employees and other eligible persons under the 2009 Plan, which currently has 2,004 options and 56,500 other stock awards outstanding and 841,496 available for future grants. The Company no longer grants stock options under the 2000 Plan but stock options to purchase 165,231 shares of Common Stock remain outstanding under the 2000 Plan. Options granted under the 2000 Plan generally vest over three years of continuous service and expire no later than ten years from the date of grant. As of June 30, 2011, 164,786 and 2,004 options under the 2000 Plan and the 2009 Plan, respectively, are vested and exercisable.

The Company also no longer grants any stock options under the Directors' Plan but stock options to purchase 63,552 shares of Common Stock remain outstanding under the Directors' Plan. All outstanding stock options under the Directors' Plan are fully vested and presently exercisable.

During fiscal year 2011, the Company issued a total of 25,000 fully vested shares of its common stock (6,000 in each of the first three fiscal quarters and 7,000 in the fourth fiscal quarter) to the non-employee members of its Board of Directors from the 2009 Plan, which were valued at an aggregate of \$36,130 or weighted average of \$1.45 per share. Stock-based compensation expense for each issuance of this common stock was recorded at the market closing price on the last trading day prior to their issuance. The Company also issued 31,500 shares of restricted stock to the Company's Chief Executive Officer, valued at \$1.31 per share, the market closing price on the last trading day prior to their issuance, which shares became fully vested on December 21, 2010. The cost of this restricted stock grant was recognized as stock-based compensation expense over the vesting period of the shares. In order to encourage the Directors and the Chief Executive Officer to retain the stock when it vested notwithstanding the tax burden created thereby, the Company made cash payments for an aggregate of \$39,000, to grantees equal to 50% of the market value of the shares on the vesting date, which was recorded as expense when paid.

Employee Stock Options

Under the 2000 Plan, 555,556 shares of Common Stock were initially reserved for issuance as stock options to employees, including officers and directors, consultants and non-employee directors upon the exercise of options. Options granted under the 2000 Plan generally vest over three years of continuous service and expire no later than ten years from the date of grant.

While the Company historically granted options under the 2000 Plan only to employees of the Company and its subsidiaries, when the shares reserved for the Directors' Plan (discussed below) were exhausted in July 2008, the Compensation Committee resolved to make the automatic grants of fully vested options to non-employee members of the Board of Directors from the 2000 Plan until such time as there were additional shares available to resume such automatic grants under the Directors' Plan. On November 20, 2008, the shareholders approved an increase in the amount of shares of Common Stock reserved for issuance under the Directors' Plan to 111,112 so the automatic grants of stock options to non-employee directors were again made from the Directors' Plan.

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

The following table summarizes the stock option transactions under all employee plans discussed above:

	<u>All Employee Plans</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value (In Thousands)</u>
Outstanding at June 30, 2010	332,756	\$ 2.46	3.01	\$ -
Granted	-	\$ -		
Expired or Forfeited	(165,521)	\$ 2.48		
Exercised	-	\$ -		
Outstanding at June 30, 2011	<u>167,235</u>	\$ 2.44	4.49	\$ -
Exercisable	<u>166,790</u>	\$ 2.44	4.49	\$ -
Available for future grant (2009 Plan only)	<u>841,496</u>			

No stock options were granted during fiscal 2011. The weighted average grant date fair value of stock options granted during fiscal 2010 was \$1.26. For the years ended June 30, 2011 and 2010, there were no stock options exercised.

As of June 30, 2011, the amount of total unrecognized compensation cost related to unvested share options granted under the plans was immaterial and is expected to be recognized over a weighted-average period of 0.3 year.

The following table summarizes information about stock options outstanding under both plans as of June 30, 2011:

	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Shares Exercisable
\$1.35 to \$2.00	6,231	7.70	\$1.46	5,786	\$1.45
\$2.01 to \$2.70	161,004	4.36	\$2.48	161,004	\$2.48

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The fair value of the stock options that vested was \$22,000 and \$506,000 in fiscal year 2011 and 2010, respectively.

Director Stock Options

In May 2001, the Company adopted the Directors' Plan as a separate stock option plan for non-employee members of the Company's Board of Directors. The purpose of the Directors' Plan was to provide an additional incentive to attract and retain qualified competent directors whose efforts and judgment are important to the Company's success through the encouragement of the ownership of stock by such persons.

In December 2009, the Company's Board of Directors resolved that it would make no further grants of stock options under the Directors' Plan and that grants to non-employee directors after December 2009 would only be made from the 2009 Plan. Outstanding awards under the Directors' Plan were not affected and remain in place. Under the Directors' Plan, 111,112 shares of Common Stock were initially reserved for issuance upon the exercise of options granted. Each non-employee director received a one-time grant of a fully vested option to purchase 4,445 shares of stock. On the last day of each fiscal quarter while the Directors' Plan was in effect, each non-employee director received an additional grant of an option to purchase 334 shares of stock. Options to purchase 63,552 shares of Common Stock remain outstanding at June 30, 2011 under the Directors' Plan.

Options previously granted under the Directors' Plan expire no later than ten years from the date of grant and are, with limited exceptions, exercisable as of the grant date. All outstanding options under the Directors' Plan as of June 30, 2011 are fully vested.

The following table summarizes the stock option activity under the Directors' Plan for the periods indicated:

	<u>2001 Plan</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value (In Thousands)</u>
Outstanding at June 30, 2010	85,777	\$ 6.90	3.83	\$ 2
Granted	-	\$ -		
Expired or Forfeited	(22,225)	\$ 7.20		
Exercised	-	\$ -		
Outstanding at June 30, 2011	<u>63,552</u>	\$ 6.80	3.87	\$ 2
Exercisable	<u>63,552</u>	\$ 6.80	3.87	\$ 2

There were no stock options granted under the Directors' Plan during fiscal year 2011. The weighted average grant date fair value of Directors' stock options granted during fiscal 2010 was \$1.53. For the years ended June 30, 2011 and 2010, there were no stock options exercised.

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The following table summarizes information about the Directors' stock options outstanding under the Plan as of June 30, 2011:

Options Outstanding and Exercisable			
Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
\$0.68 to \$4.27	14,055	7.14	\$2.21
\$4.28 to \$8.54	34,494	2.27	\$6.48
\$8.55 to \$12.81	13,335	4.51	\$11.46
\$12.82 to \$17.09	1,668	4.38	\$14.83
Total	63,552		

There were no stock options that vested during fiscal year 2011. The fair value of the stock options that vested during fiscal year 2010 was \$3,000.

For the years ended June 30, 2011 and 2010, the Company recorded amortization of stock compensation expense, with a correlating increase to shareholders' equity, in the amount of \$90,000 and \$190,000, respectively.

The Company offers a 401(k) benefit plan which provides for voluntary contributions by employees subject to a maximum annual contribution. During fiscal years 2011 and 2010, the Company did not make any matching employer contributions.

9. SIGNIFICANT CUSTOMERS AND VENDORS

In fiscal years 2011 and 2010, revenue from two customers accounted for 24% and 22.9%, respectively, of the Company's consolidated revenues.

During fiscal years 2011 and 2010, the Company had two vendors, that represented more than 10% of cost of sales. The vendors accounted for an aggregate of 48% and 47%, of total cost of sales during fiscal years 2011 and 2010, respectively.

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10. INCOME TAXES

The components of the provision for federal and state income taxes are summarized as follows (in thousands):

		<u>Year Ended June 30,</u>	
		<u>2011</u>	<u>2010</u>
Current:			
State	\$	(226)	\$ (32)
Federal		-	-
Income tax provision		<u>(226)</u>	<u>(32)</u>

The actual tax benefit of the Company for the years ended June 30, 2011 and 2010 differs from the statutory Federal tax rate of 34%, due to the following (in thousands):

		<u>Year Ended June 30,</u>	
		<u>2011</u>	<u>2010</u>
Expected benefit for income taxes			
at the statutory Federal income tax rate of 34%	\$	(506)	\$ (169)
Deferred tax valuation allowance		583	351
State income taxes, net of federal benefit		(45)	(15)
Effect of uncertain tax positions		(155)	34
Nondeductible expenses		(46)	(52)
Other, net		(57)	-
Net operating loss carryforward adjustment		-	(120)
Change in tax rate		-	(61)
Provision for income taxes	\$	<u>(226)</u>	<u>\$ (32)</u>

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their income tax bases, and operating loss carryforwards.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences and net operating loss carryforwards that give rise to significant portions of the deferred tax assets and liabilities at June 30, 2011 and 2010 are presented below (in thousands):

	June 30,	
	2011	2010
Deferred tax assets:		
Net operating loss carryforwards	\$ 9,807	\$ 9,979
Reserves and allowances	339	360
Stock-based compensation expense	772	752
Accrued expenses and deferred income	487	229
AMT Credit	18	11
Intangible assets	-	344
Other, net	7	74
Total gross deferred tax assets	11,430	11,749
Less: valuation allowance	(9,399)	(9,982)
Total deferred tax assets	2,031	1,767
Deferred tax liabilities:		
Property and equipment	(1,775)	(1,767)
Intangible Assets	(256)	-
Total deferred tax liabilities	(2,031)	(1,767)
Net deferred tax assets	\$ -	\$ -

Realization of deferred tax assets is dependent upon generating sufficient taxable income in future periods. ASC-740-10-30 requires a valuation allowance to reduce the deferred tax assets reported, if, based on management's analysis, it is more likely than not, that some portion or all of the deferred tax assets, will not be realized. After consideration of all the information available, management has determined that a \$9.4 million and \$9.9 million valuation allowance at June 30, 2011 and 2010, respectively, is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized.

As required by the provisions of Financial Accounting Standards Board's Accounting Standards Codification Topic 740, *Income Taxes* ("ASC 740"), the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

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A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows (in thousands):

	June 30,	
	2011	2010
Balance - <i>beginning of period</i>	\$ 695	\$ 759
Additions based on tax positions related to the current year	55	-
Reductions for tax positions of prior years	(64)	(30)
Reductions as a result of lapse of applicable statute of limitations	(66)	(34)
Balance - <i>end of period</i>	\$ 620	\$ 695

At June 30, 2011 and 2010, the amount of unrecognized tax benefits was approximately \$620,000 and \$695,000 respectively, of which approximately \$137,000 and \$268,000 would, if recognized, be permanent in nature for each respective tax year. The Company has not recognized this liability on the balance sheet due to the Company's net operating loss carryforward.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income taxes. The Company did not accrue any interest and penalties for fiscal years 2011 and 2010 due to the existence of net operating loss carryforwards.

The Company and/or its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and other local jurisdictions. The Company's federal income tax returns for years prior to June 30, 2008 are no longer subject to examination. Returns for some state and local jurisdictions prior to that date remain subject to examination but are not individually considered material.

As of June 30, 2011, the Company has net operating loss carryforwards for federal income tax purposes of approximately \$25.8 million, which will begin to expire in the year 2012. The utilization of the net operating loss carry forwards may be subject to the Internal Revenue Code Section 382 limitation related to ownership changes. Additionally, the Company has state net operating loss carryforwards of approximately \$25.2 million which expire in varying years.

To the extent that a valuation allowance is established or an increase in the allowance is recorded in a period, a tax expense is provided in the statement of operations. Management judgment is required in determining the provision for income taxes, the deferred tax assets and liabilities, and any valuation allowance recorded against net deferred tax assets. A valuation allowance of \$9.4 million was recorded as of June 30, 2011, due to uncertainties related to utilizing some of the deferred tax assets, primarily consisting of certain net operating losses carried forward, before they expire. The valuation allowance is based on current estimates of future taxable income and the period over which net deferred tax assets will be recoverable. If actual results differ from these estimates, or these estimates are adjusted in future periods, it may be necessary to reduce or eliminate the valuation allowance, which would cause an increase in reported earnings for that period. As a result, changes in current estimates of taxable income could materially impact the Company's financial position and results of operations. There can be no assurance that any reduction will be made to the allowance.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases real property and equipment under operating leases that expire at various times through fiscal year 2017. Rent expense amounted to \$1.7 million for each of the fiscal years ended June 30, 2011 and 2010. Certain leases contain escalation clauses and renewal options.

Future minimum lease payments under non-cancelable operating leases as of June 30, 2011 are (in thousands):

<u>Year Ending June 30,</u>	<u>Operating Lease Payments</u>
2012	\$ 1,157
2013	964
2014	539
2015	317
2016	55
2017	4
Total	<u>\$ 3,036</u>

Governmental Regulation

Numerous federal, state and local laws, regulations and ordinances, including those relating to protection of the environment, affect the Company's operations. The operation of the Company's mobile fueling fleet and its transportation of diesel fuel and gasoline are subject to extensive regulation by the U.S. Department of Transportation ("DOT") under the Federal Motor Carrier Safety Act ("FMCSA") and the Hazardous Materials Transportation Act ("HMTA").

These laws may impose penalties or sanctions for damages to natural resources or threats to public health and safety. Such laws and regulations may also expose the Company to liability for the conduct of, or conditions caused by others, or for acts of the Company that were in compliance with all applicable laws at the time such acts were performed. Certain environmental laws provide for joint and several liabilities for remediation of spills and releases of hazardous substances. In addition, the Company 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. These future costs are not fully determinable due to such factors as the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions that may be required, the determination of the Company's liability in proportion to other responsible parties, and the extent to which such costs are recoverable from third parties.

Employment Agreements

The Company has entered into written employment agreements with certain officers and employees. The agreements vary in length of term and may provide for severance payments upon termination without cause or for automatic renewal for successive periods unless notice of termination is given prior to a renewal period.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Litigation

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, 2011. Therefore, no contingency gains or losses have been recorded as of June 30, 2011. However, management believes that the final resolution of such matters pending at the time of this report, individually and in the aggregate, will not have a material adverse effect upon the Company's consolidated financial position, results of operations or cash flows.

On November 23, 2009, SMF Energy Corporation (the "Company") entered into a confidential settlement agreement (the "Agreement") resolving all claims in the lawsuit entitled, *SMF Energy Corporation vs. Financial Accounting Solutions Group, Inc., Mitchel Kramer, Alex Zaldivar and Kramer Professional Staffing, Inc.* Pursuant to the Agreement, SMF received a payment of \$1,050,000 during the quarter ended December 31, 2009. The payment was treated as a partial recovery of the professional fees incurred in connection with the lawsuit, with no gain or loss recognized for the settlement. The Company expensed \$466,000 of these professional fees during the fiscal year ended June 30, 2010. The recovery of these professional fees and the year to date litigation costs have been recorded as part of selling, general and administrative expenses in the statement of operations. There was no admission of liability by any of the parties to the lawsuit on account of any of the various claims, counterclaims or third party claims made in the lawsuit. All claims made by or against the Company in the lawsuit were released as part of the Agreement.

Effective June 30, 2011, the Company and its subsidiary H & W Petroleum Company, Inc. ("H & W") settled a civil action previously filed by the Company in Harris County, Texas (the "Harris County Litigation"). The Harris County Litigation arose out of the Company's 2005 purchase of all of H & W's outstanding stock (the "Stock Purchase") from the former shareholders of H & W (the "Former H & W Shareholders"), H & W's concurrent purchase of certain assets (the "Asset Purchase") of another company affiliated with the Former H & W Shareholders ("KSB"), and various facility lease agreements (the "Leases") between certain affiliates of the Former H & W Shareholders (the "Landlords"), as lessors, and H & W, as lessee, relating to facilities currently occupied by H & W in Houston, Waxahachie and Lufkin, Texas (the "Facilities"). The Stock Purchase, the Asset Purchase and the Leases are collectively referred to as the "Transactions". The Former H & W Shareholders, KSB and the Landlords are collectively referred to as the "KSB Parties".

In the settlement, the Company, H & W and the KSB Parties agreed to dismiss the Harris County Litigation and release all claims made therein and all claims related to the Transactions in exchange for (i) the conveyance to H & W of the Facility in Lufkin, Texas (the "Lufkin Conveyance"); (ii) the conveyance of certain equipment that is no longer in use to the Landlord of the Waxahachie Facility, (iii) the modification of the Lease of the Facility in Houston to permit a portion of the rent to be reserved by H & W to fund improvements to that Facility; and (iv) various other modifications of the Leases. Because the Lufkin Conveyance recently closed, the parties have filed a joint motion to dismiss the Harris County Litigation and all claims made therein, with prejudice, which is expected to be granted by the Court in the ordinary course.

SMF ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. RELATED PARTY TRANSACTIONS

The Company paid \$79,000 and \$78,000 pursuant to ordinary commercial terms, for each of the years ended June 30, 2011 and 2010, respectively, to a provider of investor relations and public relations services whose chief executive officer is a member of the Company's Board of Directors.

13. SETTLEMENT RECEIVABLE

As described above in Note 11, Commitments and Contingencies – Litigation, the Company and its subsidiary H & W Petroleum Company, Inc. entered into a settlement agreement, effective as of June 30, 2011, to resolve the claims alleged by the parties in the Harris County Litigation.

As noted above, the settlement provides for the dismissal of the Harris County Litigation with prejudice in consideration of (i) the conveyance to H & W of the Facility in Lufkin, Texas; (ii) the conveyance of certain equipment to the landlord of the Waxahachie Facility, (iii) the modification of the lease of the Company's facility in Houston to permit a portion of the rent to be reserved by H & W to fund improvements to that facility; and (iv) various other modifications of the Leases.

As a result of the settlement agreement effectuated on June 30 2011, the Company recorded a net receivable settlement of \$693,000 in other assets as reflected in the June 30, 2011 Consolidated Balance Sheet. The net receivable of \$693,000 represents the land valued at \$500,000, a building valued at \$1.250 million, less the related mortgage liability of \$1.057 million, which were received and incurred in September 2011. As part of the settlement, in June 2011, the Company relieved a prior receivable due of \$632,000, and relieved an asset retirement obligation liability of \$171,000. The net effect of the settlement did not have a material impact on the Company's financial condition or results of operations, however, any net excess of the consideration received over the consideration provided was offset against general and administrative expenses incurred in connection with the settlement.

BOARD OF DIRECTORS

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Chairman of the Board,
Chief Executive Officer and President of
Mulkey & Associates, Inc.

Wendell R. Beard
Ryder System, Inc. (retired)

Steven R. Goldberg
Chief Executive Officer and President of
SMF Energy Corporation

Nat Moore
Vice President of Alumni Relations &
Special Projects and Senior Advisor to
the CEO of the Miami Dolphins

C. Rodney O'Connor
Chairman of
Cameron Associates, Inc.

Robert S. Picow
Chairman of
Quamtel

Peter H. Woodward
General Partner of
MHW Capital Management, LLC

EXECUTIVE OFFICERS

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Chief Executive Officer and President

Michael S. Shore
Chief Financial Officer,
Senior Vice President and Treasurer

Robert W. Beard
Senior Vice President, Operations & Sales

Timothy E. Shaw
Chief Information Officer
and Senior Vice President, Information
Services & Administration

Gary G. Williams
Senior Vice President, Supply

L. Patricia Messenbaugh
Chief Accounting Officer,
Vice President, Finance & Accounting,
and Principal Accounting Officer

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SEC Counsel
Davis Graham & Stubbs LLP
Denver, Colorado

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Common Stock is listed on
NASDAQ Capital Market

Stock Symbol
FUEL (Common Stock)

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