



TAGLICH BROTHERS

The Standard of Excellence in the Microcap Market

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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

SMF Energy Corporation

Rating: Buy

John Nobile

October 12, 2009

FUELD \$1.47 — (NASDAQ CM)

| | FY(2007)A | FY(2008)A | FY(2009)A | FY(2010)E |
|----------------------------|-----------|-----------|-----------|-----------|
| Revenues (millions) | \$229.8 | \$260.7 | \$199.2 | \$198.7 |
| Earnings (loss) per share* | \$(2.58) | \$(2.18) | \$(1.39) | \$0.14 |

| | | | |
|-------------------------------------------------|-----------------|--------------------------|----------|
| 52-Week range | \$3.15 – \$0.45 | Fiscal year ends: | June |
| Shares outstanding <small>as of 9/23/09</small> | 8.6 million | Revenue per share (TTM) | \$59.39* |
| Approximate float | 7.1 million | Price/Sales (TTM) | NMF |
| Market capitalization | \$12 million | Price/Sales (FY2010)E | NMF |
| Tangible book value/share | \$0.50 | Price/Earnings (TTM) | NMF |
| Price/tangible book value | 2.9X | Price/Earnings (FY2010)E | 10.5X |

* Adjusted for 1 for 4.5 reverse stock split effective 10/1/2009.

Headquartered in Fort Lauderdale, Florida, SMF Energy Corporation is a provider of petroleum product distribution services, transportation logistics and emergency response services to the trucking, manufacturing, construction, shipping, utility, energy, chemical, telecommunications and government services industries. (www.mobilefueling.com)

Key investment considerations:

We are upgrading SMF Energy Corporation (NASDAQ CM: FUELD) to Buy from Speculative Buy and increasing our twelve-month price target to \$4.00 per share from \$2.25 (split adjusted) based on a Total Enterprise Value (TEV)/EBITDA valuation.

The company's recent recapitalization significantly reduced its current debt obligations and interest expense. We believe this will improve the company's bottom line and market capitalization despite the increased dilution. We also believe that the company's profitability and minimal capital expenditures will result in approximately \$4.0 positive cash flow in fiscal 2010 and a further strengthening of its balance sheet.

On September 28, 2009, SMF Energy reported fourth quarter revenues decreased 51% to \$40.0 million. The net loss to common shareholders was \$3.8 million or \$(1.10) per share versus \$0.6 million or \$(0.17) per share in the same period a year earlier (split adjusted for both periods). Included in the net loss for the fourth quarter of fiscal 2009 was a \$1.7 million non-cash charge associated with the recent recapitalization.

On June 29, 2009 SMF Energy completed a \$40 million recapitalization program that restructured all of its debt and equity. Management estimated that the recapitalization reduced its short term debt by \$9.5 million, the total debt on its balance sheet by \$4.5 million, and the annual servicing expense for interest and dividends by over \$1 million, while increasing shareholders' equity by \$4.1 million.

SMF Energy recently announced an expansion of its business relationship with the United States Postal Service (USPS) into 10 new markets in South Louisiana. This addition extends the services of the company to the USPS beyond the New Orleans, Baton Rouge and Shreveport core market areas and the 37 locations awarded last year.

**Please view our disclaimer located on page 12.*

700 New York Avenue, Huntington, N.Y. 11743

(800) 383-8464 • Fax (631) 757-1333

www.taglichbrothers.com

Overview

Headquartered in Fort Lauderdale, Florida, SMF Energy Corporation (formerly Streicher Mobile Fueling, Inc.) is a provider of 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 currently conducts operations through 31 service locations in the eleven states of Alabama, California, Florida, Georgia, Louisiana, Mississippi, Nevada, North Carolina, South Carolina, Tennessee and Texas.

Business

Commercial Mobile and Bulk Fueling and Fuel Management Services

SMF provides commercial mobile and bulk fueling deliveries on a regularly scheduled or as needed basis, refueling vehicles and equipment, and re-supplying bulk storage tanks and emergency power generation systems. Traditionally, businesses and other entities that operate fleets of vehicles and equipment have met their fueling requirements by fueling vehicles at retail stations or at other third party facilities or by maintaining their own supply of fuel in on-site storage tanks. SMF's fleet also handles the movement of customer equipment and storage tanks it provides to its customers.

The company's commercial mobile fueling involves the use of a patented proprietary electronic fuel tracking control system to measure, record and track fuel dispensed to each vehicle and tank fueled at a customer location. This system allows verification of the amount and type of fuel delivered and provides customers with customized fleet fuel data. Depending on the customer application, SMF claims the benefits of commercial mobile fueling and out-sourced fuel management services over traditional fueling methods may include:

- *Reduced operating costs and increased labor productivity.*
- *Centralized inventory control and management.*
- *Tax reporting benefits.*
- *Elimination of expenses and liabilities of on-site storage.*
- *Lower risk of fuel theft.*
- *Access to emergency fuel supplies and security.*

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

SMF distributes and sells a wide array of petroleum-based lubricants such as gear oil, engine oil, heavy-duty motor oil, hydraulic oil, transmission oil, specialty high temperature grease and synthetic lubricants, from its Texas facilities. The company's operations include the repackaging of lubricants purchased in bulk quantities and the blending of lubricant products to meet specific customer requirements. SMF also distributes dry cleaning solvents and other chemicals.

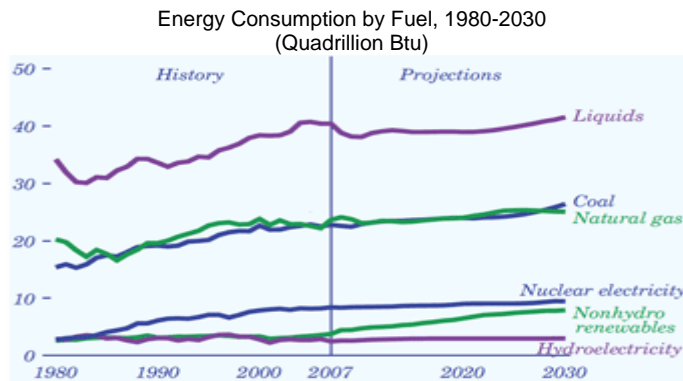
Emergency Response Services

The company provides 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 the company's customers. SMF provides access to emergency fuel supplies at times and locations chosen by its customers, allowing them to react more quickly and effectively to emergency situations. In addition, the company's emergency generator services program provides customers with ongoing fuel testing, treatment, filtration and top-off services to ensure that generators and other emergency power supply systems are fully fueled and that the fuel is in optimal condition for use at the onset of power outages. The company then provides emergency fuel supplies in a series of scheduled deliveries for the duration of power outages based on the consumption and utilization requirements of these generator systems.

Industry

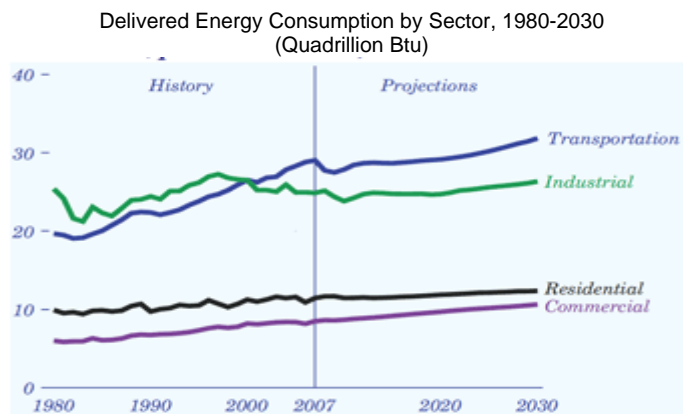
Fuel and lubricant distributors deliver gasoline, diesel, propane, kerosene, lubricants and other petroleum-based products via fleets of tanker trucks, trailers, and bobtail trucks. Typical industrial lubricant products include gear oil, gas engine oil, heavy duty motor oil, hydraulic oil, transmission oil and grease for use in a variety of industrial and commercial power plants, engines, compressors and vehicles.

The Energy Information Administration (EIA) in its 2009 Annual Energy Outlook (Early Release Overview, Published January 2009) said that delivered total consumption of liquid fuels, including both fossil liquids and biofuels, will grow from 40.8 quadrillion Btu (20.6 million barrels per day) in 2007 to 41.6 quadrillion Btu (21.6 million barrels per day) in 2030.



Source: Energy Information Administration

Growth in demand for liquid fuels will be led by the transportation sector. The EIA said that the transportation sector dominates demand for liquid fuels, which is projected to grow from 69% of total consumption in 2007 to 75% in 2030.



Source: Energy Information Administration

With the growth in demand for liquid fuels being led by the transportation sector, the outlook for that sector could provide some insight into what to expect for SMF Energy. Indeed the long term outlook into 2030 provided by the Energy Information Administration looks promising; however, the near term outlook is not as promising.

The Energy Information Administration said total consumption of liquid fuels and other petroleum products averaged 19.4 million bbl/d in 2008, down nearly 1.3 million bbl/d or 6.1% from 2007 (U.S. Petroleum Products Consumption Growth). Based on the prospects of a continuing weak economy, consumption is projected to shrink by an additional 570,000 bbl/d or 2.9% in 2009, led by a 200,000-bbl/d fall in distillate fuel consumption. The assumed gradual economic recovery in 2010 is expected to contribute to a 250,000-bbl/d or 1.3% increase in total liquid fuels consumption.

The September 2009 Freight Index from Cass Information Systems showed that while September's freight expenditures and shipments both increased from the previous month's activity, they were still significantly lower than the levels achieved in 2008. Cass Information Systems processes over \$17.5 billion in annual freight payables. These volumes of data provide a statistically valid sampling ratio that can be used as an economic indicator of industrial activity.

4th Quarter and Fiscal 2009 Financial Results (adjusted for 1 for 4.5 reverse stock split effective 10/1/2009)

For the fourth quarter ended June 30, 2009 versus the same period in 2008:

- Total revenues decreased 51% to \$39.9 million from \$82.0 million.
- Gross margins increased to 8.9% from 5.2%.
- Gallons sold decreased to 16.7 million from 19.0 million.
- Net margin per gallon decreased to \$0.23 from \$0.24. (Net margin per gallon is calculated by adding gross profit to the cost of sales depreciation and amortization and dividing that sum by the number of gallons sold).
- Selling, general and administrative expenses decreased to \$3.4 million from \$3.8 million.
- EBITDA decreased to \$0.9 million from \$1.2 million.
- Interest expense and other decreased to \$0.5 million from \$0.8 million.
- The net loss was \$1.9 million or \$(0.56) per share versus a net loss of \$0.4 million or \$(0.11) per share.
- Preferred stock and non-cash deemed dividends totaled \$1.9 million versus \$0.2 million.
- The net loss to common was \$3.8 million or \$(1.10) per share versus a net loss to common of \$0.6 million or \$(0.17) per share. The net loss for the fourth quarter of fiscal 2009 included a \$1.7 million non-cash charge associated with the recent recapitalization (details in next section).

We estimated fourth quarter total revenues of \$36.6 million and a net loss to common of \$0.4 million or \$(0.13) per share.

For the fiscal year ended June 30, 2009 versus the same period in 2008:

- Total revenues decreased 24% to \$199.2 million from \$260.7 million.
- Gross margins increased to 8.3% from 5.0%.
- Gallons sold decreased to 67.9 million from 73.9 million.
- Net margin per gallon increased to \$0.26 from \$0.19.
- Selling, general and administrative expenses decreased to \$14.8 million from \$14.9 million.
- EBITDA increased to \$4.5 million from \$1.2 million.
- Interest expense decreased to \$2.4 million from \$3.1 million.
- The net loss was \$2.3 million or \$(0.70) per share versus a net loss of \$6.8 million or \$(2.10) per share.
- Preferred stock and non-cash deemed dividends totaled \$2.3 million versus \$0.2 million.
- The net loss to common was \$4.7 million or \$(1.39) per share versus a net loss to common of \$7.0 million or \$(2.18) per share. The net loss for fiscal 2009 included a \$1.7 million non-cash charge associated with the recent recapitalization. The net loss for fiscal 2008 included a \$1.7 million loss on the extinguishment of convertible notes.

Fiscal 2009 Discussion

The decrease in revenues was primarily due to a 28% drop in market prices of petroleum products. As a result of price variances, revenues decreased \$43.9 million. Additionally, \$17.5 million of the \$61.5 million total revenue decrease was due to an 8% decline in unit volume.

The increase in gross margins was primarily due to a higher net margin per gallon.

The increase in net margin per gallon was primarily a result of increased efficiencies related to the company's route structure consolidation, increased productivity, and the incremental margin from emergency response services in Louisiana and Texas for Hurricanes Gustav and Ike.

The decrease in selling, general and administrative expenses was primarily due to cost cutting and business restructuring steps (includes employee reductions) taken beginning in late November 2008 to meet the decrease in customer demand.

The decrease in interest expense was primarily due to lower interest rates and reduced borrowings. The weighted average rate on the line of credit during fiscal 2009 was 5.04% versus 7.58% in fiscal 2008.

Balance Sheet and Cash Flow

As of June 30, 2009, the company's cash balance was \$0.1 million. SMF had working capital of \$0.4 million, short-term debt of \$8.8 million, long-term debt of \$4.9 million, and a tangible book value of \$0.50 per share. Although the company's balance sheet strengthened, it still has a relatively high total debt/equity ratio of 2.1X. The company had approximately \$2.4 million available through its line of credit (expires July 1, 2012).

During fiscal 2009, the company generated \$2.7 million positive cash flow (net income/(loss) plus non-cash charges). A \$13.9 million decrease in accounts receivable offset by a \$5.2 million decrease in accounts payable were the primary components which resulted in \$12.1 million cash provided by operations.

\$0.1 million proceeds from the sale of equipment and a \$0.1 million decrease in restricted cash helped offset capital expenditures of \$0.3 million resulting in \$0.1 million cash used in investing activities.

\$210.3 million of proceeds from its line of credit offset by repayments of \$222.3 million accounted for most of the \$11.9 million cash being used in financing activities.

Total cash flow components resulted in approximately \$0.1 million of additional cash in fiscal 2009.

\$40 Million Recapitalization

On June 29, 2009 SMF Energy completed a \$40 million recapitalization program that restructured all of its debt and equity. Management estimated that the recapitalization reduced its short term debt by \$9.5 million, the total debt on its balance sheet by \$4.5 million, and the annual servicing expense for interest and dividends by over \$1 million, while increasing shareholders' equity by \$4.1 million.

The company entered into various agreements with dozens of the company's existing debt and equity investors that extinguished all of its existing non-bank debt and outstanding preferred stock. The agreements provided for the exchange of 11.5% and 12% high yield securities for lower yield 5.5% debt or equity securities or shares of common stock.

SMF and its principal lender, Wachovia Bank, agreed to convert the company's existing \$25 million revolving line of credit into a new \$25 million loan facility comprised of a three year \$20 million revolver coupled with a new \$5 million 5.5% 60-month, fully amortized term loan.

The new \$5 million term loan interest rate is at a LIBOR floor of 0.75% plus 3.75%, or 4.5%, compared to the 11.5% and 12% that SMF was paying on the former secured and unsecured debt. The new \$800,000 unsecured note and series D preferred stock series all have a yield of 5.5%, respectively, compared to the 12% cumulative dividend on the extinguished series A, B and C preferred stock. All interest on the unsecured notes and dividends for the preferred stock series D is deferred for the first 13 months. The terms on the bank line of credit include lowering the current rate from 4.0% to 3.75%, as it is now based on a LIBOR floor of 0.75% plus 3.00% compared to the former rate of prime of 3.25% plus 0.75%.

The recapitalization resulted in a significant increase in outstanding common stock to 35.8 million shares and 42 million shares on a fully diluted basis (pre split).

Strategy

An objective of the company's business model is to become the leading "single source" provider of petroleum products and services to its target customers in the eleven states in which it presently has operating locations, as well as expanding into additional markets in the Southeast, Mid-Atlantic, Mid-Continent and West Coast regions of the U.S. To achieve this objective SMF plans to grow organically and through selective acquisitions.

The company's organic growth strategy is focused on increasing market share in its existing operating locations and contiguous geographic areas. The company seeks 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. SMF believes that its corporate infrastructure, including its Enterprise Resource Planning ("ERP") operating system, has enabled it to operate more efficiently and to reduce operating costs and administrative expenses.

The company's acquisition strategy is focused on acquiring companies, assets and business operations that complement or offer diversified opportunities for growth in the markets where it already has an established presence or that permit it to expand into new markets. SMF believes that carefully selected future acquisitions can provide it with increased market share, volume and margins.

Expansion into South Louisiana

In September 2009, SMF Energy announced an expansion of its business relationship with the United States Postal Service (USPS) into 10 new markets in South Louisiana, including Slidell, Covington and Houma. This addition extends the services of the company to the USPS beyond the New Orleans, Baton Rouge and Shreveport core market areas and the 37 locations awarded last year. The company also confirmed a number of other expansions and/or new business signings with large customers in the industrial equipment rental, office supply, document management, refining/petrochemical, and oil field product industries.

Competition

SMF Energy competes 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 SMF Energy offers to its customers. In the mobile fueling area, the company also competes 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.

SMF Energy's ability to compete is affected by numerous factors, including:

1. the price, complexity and technical nature of the services required,
2. delivery dependability,
3. credit terms,
4. the costs incurred for non-mobile fueling alternatives,
5. service locations, and

6. the type of reporting and invoicing services provided.

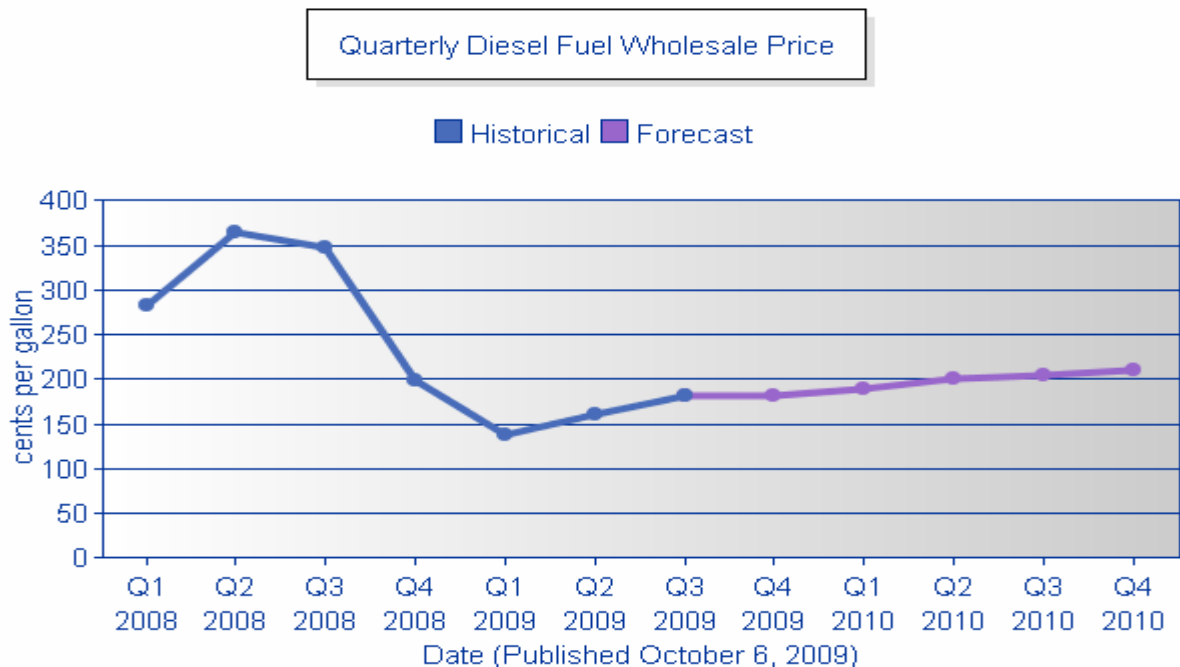
Discussion and Projections

Financial results from commercial mobile and bulk fueling services continue to be largely dependent on the number of gallons of fuel sold and the net margin per gallon achieved. During fiscal 2009, SMF experienced a 6.0 million decrease in the number of gallons sold compared to fiscal 2008. This decrease was due to lower volumes demanded by some of the company’s existing customers in response to the weaker economy and to the company’s pursuit of higher net margin business, with the overall decrease partially offset by the volume generated from new customers. While these volumes represent a decrease from prior years, SMF said it began to see some stabilization of existing customer demand in the third quarter of fiscal 2009 which continued into the fourth quarter.

During the fourth quarter conference call, management provided some insight into how the first quarter of fiscal 2010 is shaping up. Management said that first quarter net margin shows a slight improvement over the fourth quarter and that the company was profitable for the months of July and August excluding accounting charges.

With the recent stabilization in volumes sold to existing customers, the addition of new customers, and EIA forecasts calling for liquid fuel consumption growth in 2010, we believe that volumes will begin to grow sequentially starting in the first quarter of fiscal 2010.

Fuel prices are forecasted to increase steadily in the coming quarters from current levels according to the EIA. However, on a year over year basis, fuel prices are expected to be lower by approximately 11% in SMF’s current fiscal year (average \$1.88 per gallon in fiscal 2010 versus \$2.11 per gallon in fiscal 2009).



Source: Energy Information Administration

Taking the above information into account, we are forecasting fiscal 2010 revenues of \$198.7 million, EBITDA of \$5.4 million, and net income to common of \$1.3 million or \$0.14 per diluted share. Previously, we projected fiscal 2010 revenues of \$163.3 million, EBITDA of \$5.2 million, and a net loss to common of \$0.9 million or \$(0.27) per share (split adjusted). The primary reason for the turnaround in our net income projection is due to significantly lower interest expense from the recent recapitalization.

Other inputs we used in making our projections include:

- A slight increase in existing customer volume demand from an improving economy and additional customers resulting in a 9% increase total volume.
- Net margins of \$0.24 per gallon (management guided for slightly higher net margins in the first quarter of fiscal 2010 compared to the \$0.23 per gallon in the fourth quarter of fiscal 2009).
- Lower SG&A expenses on an annual basis due to cost cutting steps.
- No preferred stock dividends for fiscal 2010 (minimal expense of \$72,000 per year after fiscal 2010 due to a deferral feature)
- We anticipate the company paying minimal state income taxes due to its large amount of net operating loss carryforwards of \$28.1 million at the end of fiscal 2009.

We are forecasting the company will generate \$4.7 million cash flow in fiscal 2010 (Taglich Brothers defines cash flow as net income/loss plus non-cash charges). When combined with a \$0.3 million decrease in accounts payable (minimal change in accounts receivable) and other liabilities, we believe the company will generate \$4.4 million cash from operations. Management said that capital expenditures are expected to be approximately \$0.4 million in fiscal 2010 which should result in free cash flow and a net change in cash of approximately \$4.0 million. Our cash balance projection for the end of fiscal 2010 is \$4.1 million.

Risks

History of losses; no assurance of profitability

SMF Energy incurred net losses in each of the fiscal years ended June 30, 2009 and 2008. There can be no assurance that SMF Energy will be able to avoid net losses in the future or that its capital needs will be satisfied by cash flow from operations.

Growth dependent upon future expansion

While the company intends to continue to expand through acquisitions, its 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. There can be no assurance that SMF Energy will be able to successfully expand its operations into new markets.

Potential Nasdaq delisting

SMF Energy's common stock currently trades on the Nasdaq Capital Market. The company received notice from Nasdaq that, because the bid price of its common stock had closed below the minimum \$1.00 per share requirement for 30 consecutive business days, it was not in compliance with Nasdaq listing standards. After an extension and temporary suspension of the requirement due to extraordinary market conditions, the deadline for reestablishing compliance is now October 15, 2009. In order to do so, the company has implemented a 1 for 4.5 reverse stock split that took effect on October 1, 2009.

While the reverse stock split is intended to increase the trading price of the common stock above the \$1.00 minimum bid price, there can be no assurance that the market price per post-split share will either exceed or remain in excess of the minimum for the sustained period of time necessary to ensure long term compliance with Nasdaq rules.

Price depreciation after reverse stock split

The long term efficacy of a reverse stock split in maintaining compliance with Nasdaq's minimum bid price requirement is uncertain. Even if the reverse stock split is successful in reestablishing compliance with Nasdaq's minimum bid price requirement and the company meets the stockholders' equity and other requirements needed to maintain Nasdaq listing, there is no assurance that the aggregate market value of the common stock will be greater after a reverse stock split than it would have been without ever effecting a reverse stock split.

Competition

SMF Energy competes 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 SMF Energy offers to its customers. In the mobile fueling area, the company also competes 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. SMF Energy's ability to compete is affected by numerous factors. There can be no assurance that the company will be able to continue to compete successfully as a result of these factors.

Dilution

Although the recent recapitalization resulted in a strengthening of the company's balance sheet and lower interest expense, it also increases the amount of shares outstanding by a factor of more than 2X. Investors need to be aware that the increase in shares significantly dilutes earnings for existing shareholders.

Liquidity Risk

Shares of SMF have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. SMF Energy has 7.1 million shares in the float with an average daily volume of approximately 100,000 shares.

Miscellaneous Risks

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

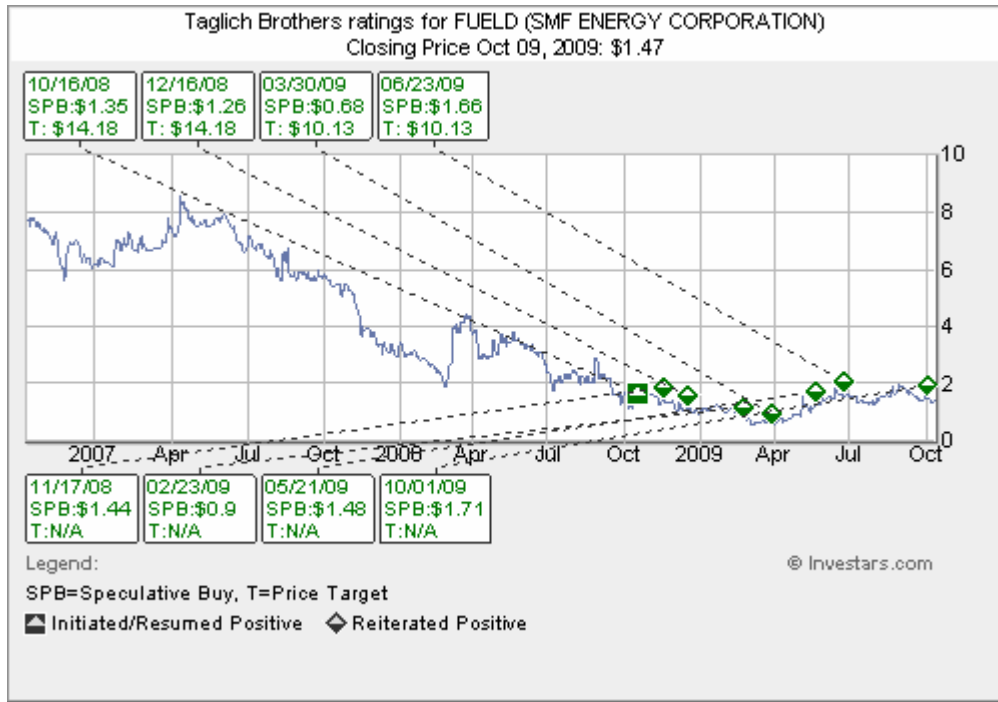
Conclusion and Valuation

We are upgrading SMF Energy Corporation (NASDAQ CM: FUELD) to Buy from Speculative Buy.

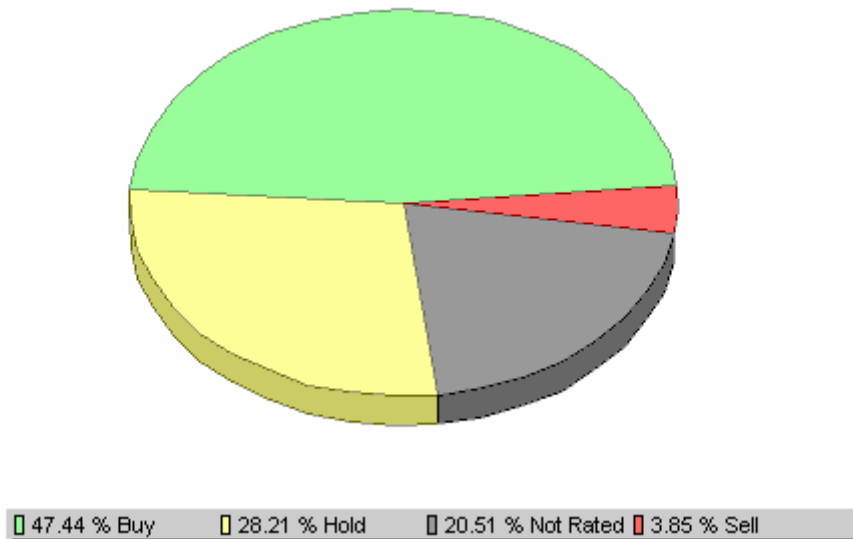
The company's recent recapitalization significantly reduced its current debt obligations and interest expense. We believe this will improve the company's bottom line and market capitalization despite the increased dilution. We also believe that the company's profitability and minimal capital expenditures will result in approximately \$4.0 positive cash flow in fiscal 2010 and a further strengthening of its balance sheet.

We choose to value shares of SMF using a TEV/EBITDA valuation model as revenue is a function of fuel prices and the company's level of earnings do not accurately depict cash earnings given the large amount of non-cash depreciation and amortization charges. We used a multiple of 10X as this is the US microcap average TEV/EBITDA multiple for the oil and gas storage and transportation industry. With \$13.6 million of total debt, \$0.1 million cash, and 9.3 million diluted shares, we arrive at a TEV of approximately \$54 million using a multiple of 10X our EBITDA estimate of \$5.4 million for fiscal 2010. **This suggests a market value of approximately \$40 million or \$4.00 per share for SMF Energy.**

SMF Energy Corporation



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

| Rating | # | % |
|-----------|---|-------|
| Buy | 1 | 3.70% |
| Hold | 0 | 0.00% |
| Sell | 0 | 0.00% |
| Not Rated | 0 | 0.00% |

Meaning of Ratings

Buy

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

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As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid for the creation and dissemination of research reports for the first six months a monetary fee of \$12,000 (USD) on September 2008, and as of April 2009, the company pays \$12,000 (USD) to Taglich Brothers, Inc., per six month period thereafter for the creation and dissemination of research reports.

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

SMF Energy Corporation

Consolidated Balance Sheets
(in thousands \$)

| | <u>June 30, 2007</u> | <u>June 30, 2008</u> | <u>June 30, 2009</u> |
|-----------------------------------------------------|-------------------------|-------------------------|-------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash | \$ 987 | \$ 48 | \$ 123 |
| Accounts receivable | 25,442 | 30,169 | 15,878 |
| Inventories | 2,283 | 2,535 | 1,959 |
| Prepaid expenses | <u>471</u> | <u>855</u> | <u>772</u> |
| Total current assets | 29,183 | 33,607 | 18,732 |
| Restricted cash | 1,145 | 69 | - |
| Property and equipment | 10,017 | 10,276 | 8,569 |
| Identifiable intangible assets | 2,771 | 2,392 | 2,019 |
| Goodwill | 228 | 228 | 228 |
| Deferred debt costs | 521 | 348 | 503 |
| Other assets | <u>60</u> | <u>64</u> | <u>67</u> |
| Total Assets | <u>\$ 43,925</u> | <u>\$ 46,984</u> | <u>\$ 30,118</u> |
| Liabilities & stockholders' equity | | | |
| Current liabilities: | | | |
| Line of credit payable | \$ 17,297 | \$ 19,789 | \$ 7,845 |
| Current portion of long-term debt | - | - | 917 |
| Accounts payable | 7,887 | 9,921 | 5,807 |
| Accrued expenses and other liabilities | <u>3,831</u> | <u>4,938</u> | <u>3,767</u> |
| Total current liabilities | 29,015 | 34,648 | 18,336 |
| Promissory notes | 10,250 | 8,794 | 800 |
| Term loan | - | - | 4,083 |
| Other long-term liabilities | <u>546</u> | <u>490</u> | <u>370</u> |
| Total liabilities | 39,811 | 43,932 | 23,589 |
| Total stockholders' equity | <u>4,114</u> | <u>3,052</u> | <u>6,529</u> |
| Total liabilities & stockholders' equity | <u>\$ 43,925</u> | <u>\$ 46,984</u> | <u>\$ 30,118</u> |

SMF Energy Corporation

Income Statements for the Fiscal Years Ended*
(in thousands \$)

| | FY(6/06)A | FY(6/07)A | FY(6/08)A | FY(6/09)A | FY(6/10)E |
|-----------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total revenue | \$ 248,699 | \$ 229,769 | \$ 260,689 | \$ 199,249 | \$ 198,712 |
| Cost of sales | 236,290 | 217,138 | 247,777 | 182,809 | 181,952 |
| Gross profit | 12,409 | 12,631 | 12,912 | 16,440 | 16,760 |
| | | | | | |
| Selling, general and administrative expenses | 13,262 | 15,836 | 14,881 | 14,755 | 14,200 |
| Operating income (loss) | (853) | (3,205) | (1,969) | 1,685 | 2,560 |
| EBITDA | 1,781 | 252 | 1,240 | 4,530 | 5,360 |
| | | | | | |
| Interest expense and other income, net | (4,025) | (3,384) | (3,051) | (2,368) | (1,200) |
| Non-cash recapitalization charge | | | | (1,651) | - |
| Gain (loss) on extinguishment of conv. notes | - | - | (1,749) | 27 | - |
| Income (loss) before income taxes | (4,878) | (6,589) | (6,769) | (2,307) | 1,360 |
| Income tax expense | - | - | - | (32) | (32) |
| Net income (loss) | \$ (4,878) | \$ (6,589) | \$ (6,769) | \$ (2,339) | \$ 1,328 |
| Preferred stock and deemed non-cash dividends | - | - | 249 | 2,323 | - |
| Net income (loss) to common | \$ (4,878) | \$ (6,589) | \$ (7,018) | \$ (4,662) | \$ 1,328 |
| | | | | | |
| Basic EPS | \$ (2.24) | \$ (2.58) | \$ (2.18) | \$ (1.39) | \$ 0.15 |
| Diluted EPS | \$ (2.24) | \$ (2.58) | \$ (2.18) | \$ (1.39) | \$ 0.14 |
| Basic Shares Outstanding | 2,182 | 2,558 | 3,215 | 3,355 | 8,668 |
| Diluted Shares Outstanding | 2,182 | 2,558 | 3,215 | 3,355 | 9,446 |
| | | | | | |
| <u>Margin Analysis</u> | | | | | |
| Gross margin | 4.99% | 5.50% | 4.95% | 8.25% | 8.43% |
| Selling, general and administrative expenses | 5.33% | 6.89% | 5.71% | 7.41% | 7.15% |
| Net margin* | 14,076 | 14,333 | 14,354 | 17,517 | 17,760 |
| Net margin per gallon (in dollars) | 0.15 | 0.17 | 0.19 | 0.26 | 0.24 |
| Gallons sold (in thousands) | 94,261 | 84,899 | 73,871 | 67,902 | 74,000 |
| <u>Year/Year Growth</u> | | | | | |
| Total revenue | 86.20% | -7.61% | 13.46% | -23.57% | -0.27% |

* Adjusted for 1 for 4.5 reverse stock split effective 10/1/2009

SMF Energy Corporation

Quarterly Income Statement for the Fiscal Year Ended June 30, 2009*

(in thousands \$)

| | <u>Q1(9/08)A</u> | <u>Q2(12/08)A</u> | <u>Q3(3/09)A</u> | <u>Q4(6/09)A</u> | <u>FY(6/09)A</u> |
|-----------------------------------------------|------------------|-------------------|------------------|-------------------|-------------------|
| Total revenue | \$ 79,271 | \$ 45,112 | \$ 34,982 | \$ 39,884 | \$ 199,249 |
| Cost of sales | 73,452 | 41,820 | 31,192 | 36,345 | 182,809 |
| Gross profit | 5,819 | 3,292 | 3,790 | 3,539 | 16,440 |
| Selling, general and administrative expenses | 4,632 | 3,267 | 3,455 | 3,401 | 14,755 |
| Operating income (loss) | 1,187 | 25 | 335 | 138 | 1,685 |
| EBITDA | 1,990 | 690 | 974 | 876 | 4,530 |
| Interest expense and other income, net | (667) | (677) | (570) | (454) | (2,368) |
| Non-cash recapitalization charge | | | | (1,651) | (1,651) |
| Gain (loss) on extinguishment of conv. notes | - | - | - | 27 | 27 |
| Income (loss) before income taxes | 520 | (652) | (235) | (1,940) | (2,307) |
| Income tax expense | (8) | (8) | (8) | (8) | (32) |
| Net income (loss) | \$ 512 | \$ (660) | \$ (243) | \$ (1,948) | \$ (2,339) |
| Preferred stock and deemed non-cash dividends | 196 | 132 | 124 | 1,871 | 2,323 |
| Net income (loss) to common | \$ 316 | \$ (792) | \$ (367) | \$ (3,819) | \$ (4,662) |
| Basic EPS | \$ 0.10 | \$ (0.24) | \$ (0.11) | \$ (1.10) | \$ (1.39) |
| Diluted EPS | \$ 0.10 | \$ (0.24) | \$ (0.11) | \$ (1.10) | \$ (1.39) |
| Basic Shares Outstanding | 3,254 | 3,320 | 3,364 | 3,485 | 3,355 |
| Diluted Shares Outstanding | 3,254 | 3,320 | 3,364 | 3,485 | 3,355 |
| <u>Margin Analysis</u> | | | | | |
| Gross margin | 7.34% | 7.30% | 10.83% | 8.87% | 8.25% |
| Selling, general and administrative expenses | 5.84% | 7.24% | 9.88% | 8.53% | 7.41% |
| Net margin* | 6,161 | 3,534 | 4,027 | 3,795 | 17,517 |
| Net margin per gallon (in dollars) | 0.33 | 0.21 | 0.25 | 0.23 | 0.26 |
| Gallons sold (in thousands) | 18,550 | 16,602 | 16,041 | 16,709 | 67,902 |
| <u>Year/Year Growth</u> | | | | | |
| Total revenue | 42.84% | -23.53% | -45.48% | -51.38% | -23.57% |

* Adjusted for 1 for 4.5 reverse stock split effective 10/1/2009

SMF Energy Corporation

Quarterly Income Statement for the Fiscal Year Ending June 30, 2010

(in thousands \$)

| | <u>Q1(9/09)E</u> | <u>Q2(12/09)E</u> | <u>Q3(3/10)E</u> | <u>Q4(6/10)E</u> | <u>FY(6/10)E</u> |
|-----------------------------------------------|------------------|-------------------|------------------|------------------|-------------------|
| Total revenue | \$ 45,850 | \$ 47,502 | \$ 50,760 | \$ 54,600 | \$ 198,712 |
| Cost of sales | 41,900 | 43,384 | 46,498 | 50,170 | 181,952 |
| Gross profit | 3,950 | 4,118 | 4,262 | 4,430 | 16,760 |
| Selling, general and administrative expenses | 3,400 | 3,500 | 3,600 | 3,700 | 14,200 |
| Operating income (loss) | 550 | 618 | 662 | 730 | 2,560 |
| EBITDA | 1,250 | 1,318 | 1,362 | 1,430 | 5,360 |
| Interest expense and other income, net | (300) | (300) | (300) | (300) | (1,200) |
| Non-cash recapitalization charge | - | - | - | - | - |
| Gain (loss) on extinguishment of conv. notes | - | - | - | - | - |
| Income (loss) before income taxes | 250 | 318 | 362 | 430 | 1,360 |
| Income tax expense | (8) | (8) | (8) | (8) | (32) |
| Net income (loss) | \$ 242 | \$ 310 | \$ 354 | \$ 422 | \$ 1,328 |
| Preferred stock and deemed non-cash dividends | - | - | - | - | - |
| Net income (loss) to common | \$ 242 | \$ 310 | \$ 354 | \$ 422 | \$ 1,328 |
| Basic EPS | \$ 0.03 | \$ 0.04 | \$ 0.04 | \$ 0.05 | \$ 0.15 |
| Diluted EPS | \$ 0.03 | \$ 0.03 | \$ 0.04 | \$ 0.04 | \$ 0.14 |
| Basic Shares Outstanding | 8,555 | 8,630 | 8,705 | 8,780 | 8,668 |
| Diluted Shares Outstanding | 9,333 | 9,408 | 9,483 | 9,558 | 9,446 |
| <u>Margin Analysis</u> | | | | | |
| Gross margin | 8.62% | 8.67% | 8.40% | 8.11% | 8.43% |
| Selling, general and administrative expenses | 7.42% | 7.37% | 7.09% | 6.78% | 7.15% |
| Net margin* | 4,200 | 4,368 | 4,512 | 4,680 | 17,760 |
| Net margin per gallon (in dollars) | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 |
| Gallons sold (in thousands) | 17,500 | 18,200 | 18,800 | 19,500 | 74,000 |
| <u>Year/Year Growth</u> | | | | | |
| Total revenue | -42.16% | 5.30% | 45.10% | 36.90% | -0.27% |

SMF Energy Corporation

Statement of Cash Flows for the Periods Ended
(in thousands \$)

| | FY2007 | FY2008 | FY2009 |
|-------------------------------------------------------------|----------------|----------------|-----------------|
| <i>Cash Flows from Operating Activities</i> | | | |
| Net income (loss) | \$ (6,589) | \$ (6,769) | \$ (2,339) |
| Depreciation and amortization | 2,623 | 2,696 | 2,438 |
| Amortization of deferred debt costs | 342 | 318 | 305 |
| Amortization of debt discount | 746 | 81 | 42 |
| Amortization of stock-based compensation | 491 | 504 | 292 |
| Gain from sale of assets | (321) | (70) | (93) |
| Inventory reserve | (38) | (139) | (17) |
| Provision for doubtful accounts | 477 | 198 | 366 |
| Non-cash loss on extinguishment of promissory/conv. notes | - | 1,479 | 1,624 |
| Other | (23) | - | 35 |
| <i>Changes in assets and liabilities</i> | | | |
| Accounts receivable | (1,588) | (4,925) | 13,935 |
| Inventories, prepaid expenses and other assets | 1,040 | (501) | 675 |
| Accounts payable and other liabilities | (1,523) | 2,885 | (5,196) |
| Net Cash Provided by (Used in) Operations | (4,363) | (4,243) | 12,067 |
| <i>Cash Flows from Investing Activities</i> | | | |
| Purchases of property and equipment | (1,344) | (2,459) | (298) |
| Proceeds from sale of equipment | 1,141 | 86 | 102 |
| Restricted cash | (1,145) | 1,076 | 68 |
| Net Cash Provided by (Used in) Investing | (1,348) | (1,297) | (128) |
| <i>Cash Flows from Financing Activities</i> | | | |
| Proceeds from line of credit | 246,210 | 263,676 | 210,313 |
| Repayments of line of credit | (244,525) | (261,184) | (222,257) |
| Proceeds from issuance of term and promissory notes | - | 7,690 | 5,725 |
| Proceeds from issuance of common stock and warrants | 2,910 | 1,170 | - |
| Proceeds from issuance of preferred stock | - | 516 | 149 |
| Principal payments on promissory notes | (1,794) | (6,359) | (4,993) |
| Debt issuance costs | (114) | (568) | (186) |
| Common stock, preferred stock, and warrants issuance costs | - | (202) | (167) |
| Payment of preferred stock dividends | - | (56) | (390) |
| Capital lease payments | (123) | (82) | (58) |
| Proceeds from exercise of common stock options and warrants | 31 | - | - |
| Net Cash Provided by (Used in) Financing | 2,595 | 4,601 | (11,864) |
| Net Change in Cash | (3,116) | (939) | 75 |
| Cash - Beginning of Period | 4,103 | 987 | 48 |
| Cash - End of Period | \$ 987 | \$ 48 | \$ 123 |