

STREICHER MOBILE FUELING INC  
Form 10-K  
October 13, 2006

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, 2006**

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**

**STREICHER MOBILE FUELING, INC.**  
(Exact name of registrant as specified in its charter)

**Florida**  
(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  
Common Stock, \$.01 Par Value

Name of exchange on which registered  
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 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, accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 \$15,626,160. 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 October 11, 2006.

As of October 12, 2006 there were 10,508,643 shares of the Registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Certain Portions of Registrant's Proxy Statement relating to the 2006 Annual Meeting of Shareholders are incorporated by reference into Part III.

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## PART I

### Item 1. Business

#### **SUMMARY**

Streicher Mobile Fueling, Inc., a Florida corporation formed in 1996, and its subsidiaries (“SMF”) provide petroleum product distribution services, transportation logistics and emergency response services to the trucking, manufacturing, construction, shipping, utility, energy, chemical, telecom and government services industries. SMF trades on the NASDAQ under the stock ticker symbol, “FUEL”.

The broad range of services we offer our customers includes commercial mobile and bulk fueling; the packaging, distribution and sale of lubricants; integrated out-sourced fuel management; transportation logistics and emergency response services. Our fleet of custom specialized tank wagons, tractor-trailer transports, box trucks and customized flatbed vehicles deliver 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 distribute a wide variety of specialized petroleum products, lubricants and chemicals to refineries, manufacturers and other industrial customers. In addition, our fleet of special duty tractor-trailer units provides heavy and ultra-heavy haul transportation services over short and long distances to customers requiring the movement of over-sized or over-weight equipment and manufactured products.

Our sophisticated mobile fueling solutions include the use of our patented proprietary electronic fuel tracking control system to measure, record and track fuel dispensed to each vehicle and tank fueled at a customer location. This system allows customer verification of the amount and type of fuel delivered and provides customers with customized fleet fuel data, which data can be used for various types of management analysis as well as tax reporting. The commercial mobile fueling services we provide offer numerous advantages to customers, including: lower labor and administrative costs associated with fueling vehicles; centralized control over fuel inventories and usage; tax reporting benefits; elimination of costs and the risk of environmental liabilities associated with on-site fuel storage and dispensing facilities; lower risk of employee theft of fuel; and elimination of security risks associated with off-site fueling by employees.

As a result of our recent acquisition activity, we are now a leading distributor of both packaged and bulk branded lubricants and of other unbranded petroleum products and chemicals. Our acquisitions have also strengthened our historical business of providing emergency service and fuel delivery services in response to natural disasters and other widespread emergency conditions, including hurricanes, tropical storms, ice and snow storms, forest fires and earthquakes. We conducted extensive operations supporting the storm relief work in the aftermath of the September 2005 Hurricane Katrina and Rita disasters.

We presently operate 225 specialized commercial vehicles from 26 operating locations serving major metropolitan markets in Alabama, California, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas. Since our recent acquisitions, we have actively pursued measured and profitable growth in these markets by selling existing services to new clients, cross selling new services to existing clients, and offering existing and new services to new clients. In addition, we continue to pursue expansion through the strategic acquisition of similar or complementary businesses that meet our criteria for long term growth and profitability.

We also own over 800 fuel and lubricant storage tanks with over 1,700,000 gallons of capacity. 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 a customer’s job site. Our portable tanks are delivered to the customer by our fleet of specialized flatbed trucks. In addition, we provide bulk fueling and lubricant services as well as transportation and delivery services for fuel and other petroleum products to customers who own their own storage facilities on a scheduled, or as

needed basis.

Our recent acquisitions are (a) the February 2005 purchase of substantially all of the assets and business operations of Shank C&E Investments, L.L.C. (“Shank Services”) a Houston, Texas based provider of commercial mobile and bulk fueling services, petroleum lubricants packaging and distribution and heavy and ultra-heavy haul transportation services serving the Houston, Dallas/Fort Worth, Austin and San Antonio markets; (b) the October 2005 acquisition of H & W Petroleum Company, Inc. (“H & W”), a Houston based marketer and distributor of lubricants, commercial fuels and petroleum products; and (c) by virtue of a transaction by H & W immediately prior to our own acquisition of H & W, the October 2005 acquisition of the operating assets of Harkrider Distributing Company, Incorporated (“Harkrider”), a Houston based marketer and distributor of dry cleaning solvents, chemicals and petroleum products. In addition to providing service to the greater Houston metropolitan area, the combined H & W and Harkrider operations also serve the Beaumont, Dallas/Fort Worth, Freeport, Longview, Lufkin, San Antonio, Waco and Waxahachie markets in Texas, and the New Orleans market in Louisiana. (See RECENT DEVELOPMENTS below).

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## **PRODUCTS AND SERVICES**

### **Commercial Mobile and Bulk Fueling and Fuel Management Services**

Traditionally, businesses and other entities that operate fleets of vehicles and equipment have met their fueling requirements by either maintaining their own supply of fuel in on-site storage tanks or fueling vehicles at retail stations and other third party facilities.

On-site storage tanks and fueling facilities can be expensive to construct and maintain, and expose the property owner and operator to potential liability associated with fuel leaks or spills. In addition, increasingly stringent federal and state environmental regulation of underground storage tanks may require businesses that maintain their own fuel supplies to spend significant amounts to remove, retrofit and/or to maintain underground and aboveground storage tanks to meet regulatory standards. We believe that many fleet operators currently utilizing on-site storage tanks will choose to meet their fueling requirements by other means, including commercial mobile fueling, instead of investing in upgrading and/or maintaining existing facilities.

The fueling of vehicles at retail stations and other third party facilities by fleet operators can result in a higher cost of operations due to inefficient use of employee time, the creation of significant unnecessary paperwork and employee fraud. While large users may be able to negotiate favorable fuel pricing from retail stations or other fuel suppliers, the labor cost incurred in connection with employee fueling of vehicles and the costs associated with management and administration of fuel purchases, can exceed the benefits associated with price discounts.

Specifically, commercial mobile fueling and out-sourced fuel management services offer numerous benefits over traditional fueling methods:

- *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 while maximizing vehicle use since fueling is conducted during non-operating hours. The fuel necessary to operate vehicles is reduced since fueling takes place at customer locations. The administrative burden required to manage fuel programs and monitor vehicle utilization is also reduced.
- *Centralized Inventory Control and Management.* Our fuel management system provides fleet operators with a central management data source. Web-based comprehensive reports detail, among other things, the location, description, fuel type and daily and weekly fuel consumption of each vehicle or piece of equipment that we fuel. This eliminates customers' need to invest working capital to carry fuel supplies and allows customers to centralize fuel inventory controls as well as track and analyze vehicle movements and fuel consumption for management and fuel tax reporting purposes.
- *Tax Reporting Benefits.* Our fuel management system can track fuel consumption to specific vehicles and fuel tanks providing tax 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 which 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 is also eliminated.

- *Lower Risk of Fuel Theft.* Fleet operators relying on employees to fuel vehicles, whether at on-site facilities or at retail stations, often experience shrinkage of fuel inventories or excess fuel purchases due to employee fraud. Our fuel management system prevents the risk of employee theft by dispensing fuel only to authorized vehicles. Utilizing our fueling services, rather than allowing employees to purchase fuel at local retail stations, also eliminates employee fraud due to credit card abuse.
- *Access to Emergency Fuel Supplies and Security.* Emergency preparedness, including fuel availability, is critical to the operation of governmental agencies, utilities, 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. For example, SMF responded to Hurricanes Katrina and Rita by mobilizing personnel and our fleet of specialized trucks and equipment to provide emergency fuel supply and support services following the devastation caused by those storm systems. Fueling by fleet operators at their own on-site storage facilities, and/or at retail and other third party locations may be limited due to power interruptions, supply outages or access and other natural limitations. In addition, since security concerns of fleet operators to terrorism, hijacking and sabotage are increasing, fueling vehicles at customers' facilities eliminates security risks to the fleet operators' employees and equipment rather than fueling at retail service stations and other third party facilities.

Historically, we have generated substantially all of our revenues from commercial mobile and bulk fueling and integrated out-sourced fuel management services. With the recent acquisitions of Shank Services, H & W and Harkrider, we have substantially increased the size of our commercial fueling operations and expanded our market area for those operations. The addition of lubricants and chemicals has diversified our products and services so that we can often meet all or substantially all of our customers' requirements for petroleum products.

Some of our bulk fueling and lubricant services customers require the use of our portable storage tanks. We deliver these tanks to the customer's job-site or other location and we reposition, re-supply and maintain them as required, on a scheduled or an as needed basis. We also provide bulk fueling services to customers who maintain their own above or below ground storage facilities. We also work with a number of nationwide fuel and card lock networks to provide an all-inclusive transportation fueling and fleet optimization solution for customers.

Our emergency response generator services program provides customers with ongoing fuel testing, treatment, filtration and top-off services to ensure that generators and other emergency power supply systems are fully fueled and that the fuel is in optimal condition for use at the onset of power outages. We then provide emergency fuel supplies to these customers for their generators and emergency power supply systems in a series of scheduled deliveries for the duration of power outages based on the consumption and utilization requirements of these systems.

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

As a result of its acquisition of Shank Services and H & W, SMF packages and distributes petroleum based lubricants to numerous customers from its Texas facilities. The acquisition of Harkrider further broadened the range of products distributed by SMF to include the dry cleaning solvents and other chemicals distributed by Harkrider.

### **Transportation Logistics Services**

With the acquisition of Shank Services, we began to provide specialized transportation and logistics services utilizing a fleet of re-configurable tractor-trailer units to provide the delivery of specialized commodities, including heavy or ultra-heavy haul over-size and/or over-weight machinery and equipment throughout the U.S. and Canada.



Our heavy haul and ultra heavy haul customers range from construction companies, for whom we handle the movement of “yellow iron”, such as cranes, bulldozers, and road grading equipment, as well as prefabricated concrete and metal building materials, to petroleum refiners and chemical plant operators, for whom we transport large vessels, processing equipment and other equipment used in the construction or “turnaround” maintenance of their facilities.

## **RECENT DEVELOPMENTS**

### **Shank Services Acquisition and Related Financing**

In its February 2005 acquisition of Shank Services, SMF acquired a fleet of 24 commercial fueling vehicles, including specialized fuel delivery, transport, oil and lubricant flatbed and tanker trucks and related support equipment; over 600 portable fuel and lubricant tanks with more than 500,000 gallons of capacity used by customers to store products provided by Shank Services; 15 heavy and ultra-heavy haul tractor-trailer units designed to transport heavy construction equipment and other over-sized and/or over weight loads weighing up to 250,000 pounds; a limited quantity of fuel and lubricant inventories; office and computer equipment and related specialized software technology; customer lists and agreements; certain other intangible assets; and outstanding customer accounts receivable. We did not assume any material Shank Services’ liabilities or debt. Shank Services employs approximately 80 personnel. SMF continues to operate the business under the trade name Shank Services; and we have integrated our pre-existing Houston and Dallas/Fort Worth commercial mobile and bulk fueling operations with those of Shank Services and H & W.

We agreed to purchase Shank Services for \$8.3 million, comprised of \$5.8 million in cash, \$1.9 million in a contingent two-year deferred payment promissory note, and \$0.6 million in acquisition costs. The payment of the promissory note was dependent on Shank Services meeting a specific target performance objective. Because the performance target was not achieved during the relevant time period, the \$1.9 million note was not required be paid and is of no further force or effect. See Note 11 to the consolidated financial statements.

In January 2005, in anticipation of the February closing of the Shank Services acquisition, we completed a \$6.1 million private placement to fund the acquisition, to develop its operations and for other general corporate purposes. We issued \$6.1 million in 10%, five-year Senior Secured Notes (the “January 2005 Notes”) that require six semi-annual principal payments commencing January 24, 2007 and a 40% balloon payment on January 24, 2010. The investors also received four year warrants to purchase 866,200 shares of our common stock at an exercise price of \$1.60 per share, including customary redemption and registration rights. In addition, 140,300 warrants with substantially similar terms were issued to the financing placement agent. Results of Shank Services’ operations have been included in our consolidated financial statements since the acquisition date.

The January 2005 Notes are secured by a first priority security interest in the tangible assets acquired from Shank Services. In connection with the issuance of the January 2005 Notes and related security agreement, we entered into an indenture with a third party trustee for payment of the January 2005 Notes.

The Shank Services acquisition materially extended SMF’s footprint in major Texas markets and provided a platform for further growth in the Southwest. SMF now provides commercial mobile fueling services to over 400 active Shank Services customers, including many in the construction, agriculture, energy, manufacturing and marine industries. This acquisition also expanded SMF’s business into related bulk commercial fueling operations, generator services and the marketing and distribution of lubricants and related petroleum products.

The Shank Services heavy and ultra-heavy haul transportation operations has provided us a new and growing opportunity to provide this specialized logistical service to numerous businesses that regularly transport heavy construction, refinery and chemical equipment, and other unusually large payloads, locally, regionally and nationally. It also gives us the opportunity to provide other products and services to these new customers, including commercial

mobile and bulk fueling, fuel management and the sale and distribution of lubricants.

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The Shank Services and H & W operating, marketing, sales and administrative functions are being integrated into SMF enabling cross-utilization of personnel in multiple geographic operating locations and combining all petroleum products and services functions and responsibilities. Since Shank Services is experienced in delivering emergency response fueling services in disaster relief situations, the acquisition also increased our capability to provide this vital support, regionally and nationally. By establishing a greater operating presence in the Texas market, together with continued growth in the Southeast and Mid-Atlantic states, the Shank Services and H & W acquisitions are expected to facilitate further acquisitions by SMF businesses in petroleum product distribution and sales, out-sourced fuel management services and transportation logistics.

### **Acquisition of H & W Petroleum and Related Financing**

By our October 2005 acquisition of H & W, we obtained H & W's longstanding business of marketing and distributing branded and non-branded lubricants, fuels and other petroleum products in Texas. Because H & W purchased the operating assets and limited inventory of Houston-based Harkrider Distributing Company, Incorporated ("Harkrider") immediately prior to the SMF acquisition, we also obtained Harkrider's business of marketing and distributing dry cleaning solvents, chemicals and petroleum products. H & W and Harkrider service the Houston, Beaumont, Dallas/Fort Worth, Freeport, Longview, Lufkin, San Antonio, Waco and Waxahachie markets in Texas, and the New Orleans market in Louisiana.

H & W provides lubricants and fueling services to over 3,800 customers, with its primary emphasis on those companies requiring large volumes of specialty industrial oils, motor and gear lubricants and greases that must adhere to rigid technical and performance specifications. Harkrider has distributed solvents and specialty petroleum products to dry cleaners and industrial customers in the Houston, Beaumont and San Antonio areas since 1946 and is one of the largest dry cleaning solvents distributors in those Texas markets with over 800 customers. H & W and Harkrider operate a combined fleet of 52 specialized lubricant, fuel and chemical delivery "bobtail" trucks; oil and lubricant flatbed and box trucks; tanker transports; and related support equipment, including approximately 200 storage tanks with over 1,200,000 gallons of capacity.

SMF agreed to purchase H & W and Harkrider for approximately \$6.3 million, which was based on a multiple of 4.5 times a projected annualized EBITDA (*earnings before interest, taxes, depreciation and amortization - a non-GAAP financial measure*) of approximately \$1.4 million, but the purchase price was adjusted at closing to \$5.964 million by working capital and other closing adjustments. The purchase price was paid with a combination of cash, the assumption of specified liabilities and the issuance of two year 10% promissory notes totaling \$2.463 million, which are subject to an earn out provision based on the performance of H & W and Harkrider after the acquisition.

On September 1, 2005, in contemplation of the then pending H & W acquisition, we issued \$3.0 million in five-year 10% redeemable promissory notes (the "September 2005 Notes") to a small group of institutions and other accredited lenders. Installment payments of six (6) equal semi-annual principal payments of ten percent (10%) of the principal amount of the September 2005 Notes will commence on August 31, 2007 and continue on February 28 and August 31 of each year thereafter, with the remaining balance of forty percent (40%), a \$1.2 million balloon payment, due at maturity on August 31, 2010. The amounts due under the September 2005 Notes will become due and payable immediately upon the occurrence of customary events of default. The September 2005 Notes are redeemable, in whole or in part, by payment of a percentage of the principal amount of the note, together with accrued but unpaid interest, if any, as follows: September 1, 2005 - August 31, 2006, 102%; September 1, 2006 - August 31, 2007, 101%; and September 1, 2007 - August 31, 2010, 100%. A portion of the proceeds of the September 2005 Notes were used to fund the approximately \$1.5 million cash portion of the H & W acquisition purchase price. The balance of the proceeds were used to develop the operations of H & W and Harkrider, including the integration of the lubricant distribution operations of Shank Services and H & W, and for other general working capital purposes. In connection with the issuance of the September 2005 Notes and related security agreement, we entered into an indenture with a third party trustee for the payment of the September 2005 Notes.

The September 2005 Notes are secured by a first priority security interest in the vehicles, equipment and other physical assets, other than inventory, of H & W. The H & W inventory is subject to the first priority security interest held by our primary lender.

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In connection with the September 2005 Notes, we also issued 360,000 four-year warrants to purchase shares of common stock at \$2.28 per share.

### **ACQUISITION AND DIVERSIFICATION STRATEGY**

The operating, marketing, sales and some administrative functions of Shank Services and H & W have now been integrated into SMF, enabling cross-utilization of personnel in multiple geographic operating locations as well as combining all petroleum products and services functions and responsibilities. Since Shank Services is experienced in delivering emergency response fueling services in disaster relief situations, that acquisition also increased our capability to provide this vital support, regionally and nationally. By establishing a greater operating presence in the Texas market, together with continued growth in the Southeast and Mid-Atlantic states, the Shank Services and H & W acquisitions are expected to facilitate further acquisitions by SMF of other strategic businesses and assets, such as companies involved in petroleum product distribution and sales, out-sourced fuel management services and transportation logistics.

An objective of our business model is to become the leading “single source” provider of petroleum products and services provider in the ten states in which we presently have operating locations, as well as additional markets in the Southeast, Mid-Atlantic and Mid-Continent regions, by offering to our end-user customers a diversified package of quality and reliable petroleum products service with 24 hour around the clock availability at competitive prices in order to meet their fueling, lubricants and chemicals requirements. In order to achieve this objective we have initiated an acquisition and diversification strategy to grow through selective acquisitions and organic growth.

We intend to acquire companies, assets or business operations which will compliment or offer diversified opportunities for us to grow in those markets where we have an established presence or that permit us to expand into new markets. We believe that carefully selected future acquisitions can provide SMF with valuable market share, volumes and margins. Such acquisitions can enhance operational and administrative efficiencies, by economies of scale and otherwise, that in turn has a material positive impact on our cash flow and earnings. Our strategic plan is to identify and evaluate suitable targets and negotiate acquisitions at fair prices and on reasonable business terms. While numerous factors will receive close consideration in determining the suitability of an acquisition, emphasis will be placed on market presence; growth potential of product and service lines; margin contribution; competition impact; customer loyalty and retention; management and other personnel commitment; integration efficiencies and controls; and transaction financing alternatives. An important objective is to achieve timely and cost-effective integration of all future acquisitions.

Our organic growth strategy is based on increasing market share in existing operating locations and geographically compatible areas through a concentrated market penetration and sales program aimed at offering a broader line of product services to both existing and prospective customers based on providing a value-added service initiative to what is generally perceived as a commodity business. The implementation of our new corporate infrastructure capability, including new ERP (Enterprise Resource Planning) operating systems technologies should enable us to reduce operating costs and administrative expenses; meet the compliance requirements of the Sarbanes-Oxley Act of 2002 when they become applicable to SMF; more efficiently integrate new acquisitions; consolidate financial management reporting and analysis functions; improve management controls; and facilitate a paperless environment from data capture to accounting. It will also provide a wide range of operating information to customers' management on a virtual real time basis which is anticipated to further distinguish the level of our services from competitors. Further, as we continue to emphasize our ability to serve more lubricants customers, we believe we will gain market share and recognition as the supplier of choice based on dependability, technical knowledge and price acceptability.

Shank Services and H & W were the initial acquisitions undertaken in our strategy to grow and diversify through acquisitions. During fiscal 2006 and the last half of fiscal 2005, we incurred substantial costs developing the infrastructure needed to support our acquisition, expansion and diversification strategy for growth. These incremental

costs will continue into fiscal 2007 as we continue our infrastructure development as well as evaluate, negotiate and complete prospective acquisitions. We expect to incur additional costs during fiscal 2007 to retain and expand our senior and line management team; undertake new sales and marketing initiatives; introduce new and expected new services and products; evaluate and optimize our specialized routing equipment to achieve more efficiencies in our fuel delivery system; and redesign our accounting and information technology systems to reduce operating costs and improve our ability to rapidly integrate acquisitions.

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Our interest costs will continue to increase to the extent that we incur additional debt to finance acquisitions and diversification, we will also continue to bear the risk of disruptions in our existing core business, causing possible higher costs, lower volumes and/or, lower margins. These types of disruptions, coupled with the infrastructure development costs needed to support our strategy, could lead to significant fluctuations in our results of operations in future reporting periods as indicated by the \$1.04 and \$2.3 million of selling, general and administrative expenses we incurred for corporate infrastructure and ongoing integration costs during the last quarter and year ended June 30, 2006.

For future acquisitions, we expect to obtain a separate pool of capital to fund each transaction, as we did in connection with the Shank Services and H & W acquisitions. This capital may be in the form of equity, debt or a combination of both. While we expect to be able to satisfy these capital requirements, there is no assurance that we will be able to do so, and any such failure will necessarily impede the implementation of our growth strategy.

### **MARKETING AND CUSTOMERS**

SMF markets its commercial mobile and bulk fueling services and its lubricant sales and distribution services to customers operating all size fleets of vehicles and equipment, including governmental agencies, utilities, trucking companies, bus lines, hauling and delivery services, courier services, construction companies and others. While large fleet operators offer immediate market penetration on a regional basis, small fleet operators can be equally important customers since they can provide the geographic market density which optimizes delivery efficiency and minimizes cost. Once engaged to provide commercial mobile fueling services, we are usually the exclusive service provider for the fueling of a customer's entire fleet or a particular location of vehicles and equipment in a market which is consistent with the other products and services we provide to our expanding customer base.

We focus our marketing efforts on fleet operators within established service areas. Fleet size and type, fuel requirements, fueling logistics and credit worthiness are factors in identifying potential new customers for our services. Direct marketing is our primary method of developing new business. Referrals from existing customers and our personnel are also important sources of potential business. In addition, we are actively developing new service markets. A minimum level of business commitments in both volumes and margins is required prior to our entry into a new market. The ability to provide service to an existing customer in a new market and the prior identification of local new customers meeting our operating criteria are important considerations in a decision to enter a market.

As of June 30, 2006, SMF distributed diesel, gasoline, alternative fuels, lubricants, chemicals and other related products and services to approximately 4,000 customers. Revenue (excluding petroleum product taxes) from one large customer, the United States Postal Service, totaled \$15 million or 6.8%, \$11.4 million or 10.4% and \$9.5 million or 14% of total petroleum product revenues in the fiscal years ended June 30, 2006, 2005 and 2004, respectively. Our current agreement with the United States Postal Service expires in August 2008. Although we have formal, length of service written contracts with certain larger customers, these types of agreements are not customary in the commercial mobile fueling business and we do not have them with the majority of our customers. Most customers can terminate our services at any time and for any reason, and we can similarly discontinue service to any customer. SMF will discontinue service to a customer if changes in service conditions or other factors cause us not to meet our minimum level of volumes and margins, and we are unable to re-negotiate a satisfactory arrangement with the customer.

### **COMPETITION**

SMF competes with other distributors of fuels, lubricants and other petroleum products, including several large regional distributors and numerous small independent local operators. Our mobile fueling operations also compete with retail marketing outlets since fleet operators often have the option of fueling their own equipment at retail stations and other third-party service locations. In addition, our heavy and ultra-heavy haul transportation operations compete with other local, regional and national providers of these services. Our ability to compete effectively is

dependent on numerous factors, including price, complexity and technical nature of the services required, delivery dependability, credit terms, service locations, as well as the type of reporting and invoicing services provided.

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We believe that SMF has several competitive advantages, including a reputation for timely, efficient and reliable delivery of products and services; well trained drivers and support personnel available twenty-four hours a day, seven days a week; and strong business relationships with our principal suppliers that allow us to provide competitive pricing for our products and services.

## **OPERATIONS**

### **Truck Fleet, Equipment, Warehouses, Bulk-Tank Farms and Portable Trucks**

SMF currently provides commercial mobile and bulk fueling; packaging, distribution and lubricants sales; integrated out-sourced fuel management; heavy and ultra heavy haul transportation logistics and emergency response services from 26 locations serving Alabama, California, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas.

Our fleet of 225 specialized commercial mobile fueling tank wagons, tractor-trailer transports, box trucks and customized flatbed vehicles deliver 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, as well as, emergency power generation systems; and distribute a wide variety of specialized petroleum products and lubricants to refineries, manufacturers and other heavy industry customers. Our custom commercial mobile fueling trucks have multi-compartmented tanks with fuel carrying capacities ranging from 2,800 to 4,500 gallons. Generally, each truck services between five and fifteen customer locations per night or day, on specified delivery routes, depending on customer size and fueling logistics. The fuel supply to be delivered is acquired daily at local third-party terminal storage facilities. Each truck is operated by a "fueler/operator" driver who also handles the actual fueling of the customers' vehicles.

As a result of the Shank Services and H & W acquisitions, SMF owns over 800 fuel and lubricant storage tanks with over 1,700,000 gallons of capacity. 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 a customer's job site. Our portable tanks are delivered to the customer by our fleet of specialized flatbed trucks. In addition, we provide bulk fueling and lubricant services to customers who own their own storage facilities. We transport and deliver fuel and other petroleum products to these customers on a scheduled, or as needed, basis utilizing our fleet of customized tank wagons or 7,500 gallon transports units.

Our fleet of 18 special duty tractor-trailer units provides specialized logistical heavy and ultra-heavy haul transportation services over short and long distances with 45,000 - 160,000 pound capacities to customers requiring the movement of over-sized/over-weight loads of equipment and heavy manufactured products. These units consist of tractor and trailer combinations which can be reconfigured to meet the specific load and routing requirements.

### **Fuel Tracking and Reporting System**

Our patented proprietary fuel tracking and reporting management system is widely used in SMF's 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. Our system is specifically designed for use in commercial mobile fueling and is certified for accuracy by The National Conference on Weights and Measures. Data is derived from the Fuel Tracking Controller ("FTC") Computer which is installed on each truck and is linked to the fueler/operator by a hand-held radio controlled scanning and transmitting device. The FTC Computer is programmed to control any variety of truck configurations, including single or multiple products and any number of pumps and hoses attached to the truck. The FTC fuel management system electronically records date, time, customer vehicle identification number, product type and volume of fuel delivered by SMF's trucks into each customer vehicle. For security and tracking purposes, the FTC Computer will not permit fuel to be dispensed from our truck unless both the customer's fleet yard and the individual

vehicle or piece of equipment to be fueled are electronically verified by the FTC Computer registration. All fueling transactions are recorded on the truck's FTC Computer, downloaded at our service locations and transmitted to our corporate headquarters where the data is assimilated into detailed service reports and invoices for the customer. This information can be delivered to the customer by a number of methods, including the internet, and data may also be delivered to the customer at his vehicle location at the time of fueling.

Because some service applications require both commercial mobile fueling and the use by the customer of his own on-site storage tanks, we have adapted the FTC Computer to track the use by the customer of its own fixed-site tanks. Upon installation of an FTC Computer, we service and manage fuel delivery to a customer's on-site storage tank, providing reports detailing fuel dispensed from the tank into each of the customer's vehicles, either alone or in combination with the customer's mobile fueling use. SMF also utilizes third party systems as required for certain of its operations, applications and equipment.

### **Fuel and Lubricant Supply**

Diesel fuel and gasoline are commodities which are refined and distributed by numerous sources. We purchase the fuel delivered to our customers from multiple suppliers at daily market prices and in some cases qualify for 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 mitigated since we purchase and deliver fuel supplies daily and generally utilize cost-plus pricing when billing customers. We also deliver customer and third-party supplied fuel.

SMF purchases lubricants from branded and unbranded suppliers in bulk and in pre-packaged containers. H & W purchases substantially all of its lubricants from a single supplier pursuant to a long term supply arrangement, in which supplier offers marketing and financing assistance to H & W customers. Lubricants are distributed and sold to our customers in bulk, prepackaged or repackaged by us to meet customer needs. The pricing of lubricants to our customers is on a cost plus basi