SPEEDEMISSIONS INC
Form 10QSB
August 13, 2007
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-QSB

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2007

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**
For the transition period from ______ to ______.

Commission file number: 000-49688

Speedemissions, Inc.

(Exact name of small business issuer as specified in its charter)

Florida	**33-0961488**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1015 Tyrone Road	
Suite 220	
Tyrone, GA	**30290**
(Address of principal executive offices)	**(Zip Code)**

Issuer s telephone number (770) 306-7667

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

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

As of August 7, 2007, there were 3,034,958 shares of common stock, par value $0.001, issued and outstanding.

Transitional Small Business Disclosure Format

(check one):

Yes ¨ No x

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Speedemissions, Inc.

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PART I

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the Exchange Act). These statements are based on management s beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading Management s Discussion and Analysis of Financial Condition or Plan of Operation. Forward-looking statements also include statements in which words such as expect, anticipate, intend, plan, believe, estimate, consider or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The Company s future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

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ITEM 1 Financial Statements
Speedemissions, Inc. and Subsidiaries

Consolidated Balance Sheets

	June 30, 2007 (unaudited)	December 31, 2006
Assets		
Current assets:		
Cash	$ 462,216	$ 320,231
Other current assets	209,812	224,930
Total current assets	672,028	545,161
Property and equipment, at cost less accumulated depreciation and amortization	941,213	1,229,329
Goodwill	7,100,572	7,100,572
Other assets	61,726	59,926
Total assets	$ 8,775,539	$ 8,934,988
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 189,100	$ 318,297
Accrued liabilities	406,715	532,984
Debt payable		111,747
Current portion of capitalized lease obligations	5,306	12,925
Total current liabilities	601,121	975,953
Other liabilities	111,408	113,848
Commitments and contingencies		
Shareholders equity:		
Series A convertible preferred stock, $.001 par value, 5,000,000 shares authorized, 5,133 and 5,133 shares issued and outstanding in 2007 and 2006, respectively liquidation preference: $10,976,000	5	5
Series B convertible preferred stock, $.001 par value, 3,000,000 shares authorized, 2,481,482 and 2,481,482 shares issued and outstanding in 2007 and 2006, respectively liquidation preference: $5,906,000	2,481	2,481
Common stock, $.001 par value, 250,000,000 shares authorized, 3,034,958 and 2,963,528 shares issued and outstanding in 2007 and 2006, respectively	3,035	2,964
Additional paid-in capital	19,788,195	19,622,834
Deferred compensation	(14,605)	(17,437)
Accumulated deficit	(11,716,101)	(11,765,660)
Total shareholders equity	8,063,010	7,845,187
Total liabilities and shareholders equity	$ 8,775,539	$ 8,934,988

See accompanying notes to consolidated financial statements.

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Speedemissions, Inc. and Subsidiaries

Consolidated Statements of Operations

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Revenue	$ 2,468,889	$ 2,375,261	$ 4,881,426	$ 4,802,790
Costs and expenses:				
Cost of emission certificates	603,090	591,340	1,202,780	1,241,590
Store operating expenses	1,384,241	1,351,671	2,886,005	2,729,523
General and administrative expenses	371,878	350,458	727,913	729,628
Income from operations	109,680	81,792	64,728	102,049
(Gain) loss from disposal of non-strategic assets	7,886		11,735	(10,472)
Interest expense	107	2,688	3,434	5,337
Net income	$ 101,687	$ 79,104	$ 49,559	$ 107,184
Net income per share (basic)	$ 0.03	$ 0.03	$ 0.02	$ 0.04
Net income per share (diluted)	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Weighted average common shares outstanding, basic	3,016,119	2,888,642	2,989,969	2,825,910
Weighted average common shares outstanding, diluted	7,296,117	7,453,640	7,269,967	7,390,908

See accompanying notes to consolidated financial statements.

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Speedemissions, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2007	2006
Operating activities:		
Net income	$ 49,559	$ 107,184
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	135,328	195,371
(Gain) loss on sale of non-strategic assets	11,735	(10,472)
Share based compensation expenses	65,432	58,424
Stock issued for services		68,500
Changes in operating assets and liabilities, net of acquisitions:		
Other current assets	50,590	(39,922)
Other assets	(1,800)	(7,200)
Accounts payable and accrued liabilities	(160,365)	(169,247)
Net cash provided by operating activities	150,479	202,638
Cash flows from investing activities:		
Proceeds from asset sales	211,094	12,000
Capital expenditures	(102,681)	(144,729)
Net cash provided by (used in) investing activities	108,413	(132,729)
Cash flows from financing activities:		
Payments on debt	(111,747)	
Payments on capitalized leases	(5,160)	(10,474)
Net cash used in financing activities	(116,907)	(10,474)
Net increase in cash	141,985	59,435
Cash at beginning of period	320,231	250,227
Cash at end of period	$ 462,216	$ 309,662
Supplemental Information:		
Cash paid during the year for interest	$ 13,017	$ 3,244

Supplemental Disclosure of Noncash Financing Activities:

During the quarter ended June 30, 2007, the Company issued 71,430 shares of common stock to the former owners of a subsidiary acquired in 2005, which was final payment of $100,000 withheld from the acquisition price for any potential unknown or undisclosed liabilities.

See accompanying notes to consolidated financial statements.

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Speedemissions, Inc.

Notes to Consolidated Financial Statements

June 30, 2007

(Unaudited)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

General

We were incorporated as SKTF Enterprises, Inc. in Florida in March 2001. In June 2003, we acquired Speedemissions, Inc., a Georgia corporation in the business of vehicle emissions testing since May 2000. In connection with the acquisition, we changed our name to Speedemissions, Inc. in September 2003. As of August 7, 2007, we operated 35 vehicle emissions testing and safety inspection centers in three separate markets, greater Atlanta, Georgia; Houston, Texas; and Salt Lake City, Utah, and four mobile units in the Atlanta, Georgia area. We expect to open eight new vehicle emissions testing and safety inspection centers in the Dallas - Ft. Worth area and two in the Houston, Texas area before December 31, 2007. Throughout this report, the terms we , us , our , Speedemissions , and Company refer to Speedemissions, Inc., including its wholly-owned subsidiaries.

Nature of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Speedemissions and its wholly-owned subsidiaries, Mr. Sticker, Inc. and Just, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the SEC s instructions applicable to Form 10-QSB interim financial information. In the opinion of management, such consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows as of June 30, 2007 and for all periods presented. The results of operations presented in the accompanying consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any future period.

The accompanying consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for annual financial statements. Such interim consolidated financial statements should be read in conjunction with the Company s audited financial statements contained in our Form 10-KSB for the year ended December 31, 2006.

Going Concern

The accompanying consolidated financial statements have been on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, as of June 30, 2007, the Company has cash on hand of $0.5 million, working capital of $0.1 million, a current quarterly net income available to common shareholders of $0.1 million and an accumulated deficit of $11.7 million. These factors raise substantial doubt about the Company s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company s ability to provide and maintain sufficient cash flow from operations to meet current and future obligations and its ability to implement its business plan. There can be no assurance that management will be successful in implementing its plans. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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Adoption of Recent Accounting Pronouncements

On January 1, 2007, Speedemissions adopted Financial Accounting Standards Board Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). The adoption of FIN No. 48 on January 1, 2007 did not result in a material cumulative-effect adjustment.

Nature of Operations

Speedemissions is engaged in opening, acquiring, developing, and operating vehicle emissions testing and safety inspection stations. The federal government and a number of state and local governments in the United States (and in certain foreign countries) mandate vehicle emissions testing as a method of improving air quality.

The Company s 35 emissions testing stations operate under the trade names *Speedemissions (Georgia), Mr. Sticker (Texas) and Just Inc. (Utah)*. At its emissions testing stations, the Company uses computerized emissions testing equipment and safety inspection equipment that test vehicles for compliance with emissions and safety standards. In the emissions testing and safety inspection industry, such stations are known as decentralized facilities. The Company utilizes basic testing systems that test a motor vehicle s emissions while in neutral and enhanced testing systems that test a vehicle s emissions under simulated driving conditions.

Use of Estimates in Financial Statements

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates included in these financial statements relate to useful lives of certain assets and valuation of long-term assets such as goodwill. Actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized as the testing services are performed. The cost of emission certificates is shown separately in the accompanying consolidated statements of operations.

The Company normally requires that the customer s payment be made with cash, check, or credit card; accordingly, the Company does not have significant levels of accounts receivable.

Under current Georgia, Texas, and Utah laws, if a vehicle fails an emissions test, it may be retested at no additional charge during a specified period after the initial test, as long as the subsequent test is performed at the same facility. The costs of such retests and the number of retests are not material. Accordingly, no allowance for retest is recorded by the Company.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable, accrued liabilities, and other short-term liabilities approximate fair value because of the short-term nature of these accounts.

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Impairment of Long-Lived Assets

Property and Equipment

The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When indicators of impairment are present, the Company evaluates the carrying amount of such assets in relation to the operating performance and future estimated undiscounted net cash flows expected to be generated by the assets or underlying businesses.

Goodwill

The Company has adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), which prescribes the accounting for all purchased goodwill. In accordance with SFAS 142, goodwill is not amortized but tested for impairment annually and whenever an impairment indicator arises.

Income Taxes

Deferred income taxes are recognized for the effect of temporary differences between financial reporting and tax filing in accordance with the requirements of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109).

Regulatory Impact

Our business depends upon government legislation and regulations mandating air pollution controls. Georgia, Texas, and Utah laws are especially important to us because all of our existing emissions testing services are currently conducted in those states. In addition, because we are seeking expansion opportunities, laws mandating air pollution controls in other states could affect our business or, since not all states require emissions testing, our ability to expand. Changes in federal or state laws that govern or apply to our operations could have a materially adverse effect on our business, such as a reduction in the price we can charge customers for our testing service, an increase in the fees we must pay to the state in order to operate emissions testing stations in its jurisdiction, and the adoption of a system whereby the state, as opposed to private operators, performs vehicle emissions testing. We cannot be assured that changes, if any, in federal or state law would not have a materially adverse effect on the vehicle emissions testing industry generally or, specifically, on our business.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which establishes accounting for equity instruments exchanged for employee services. Under the provisions of SFAS 123R, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity grant). Prior to January 1, 2006, the Company accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related interpretations. The Company also followed the disclosure requirements of SFAS 123, *Accounting for Stock-Based Compensation* , as amended by SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure* . The Company elected to adopt the modified prospective transition method as provided by SFAS 123R and, accordingly, financial statement amounts for the prior periods presented in this Form 10-QSB have not been restated to reflect the fair value method of expensing share-based compensation. See Note 6 for additional disclosures.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which establishes a framework for reporting fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of this standard on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. The Company is currently assessing the impact of the adoption of this standard on its financial statements.

Note 2: Property and Equipment

Our Lawrenceville, Georgia store, which we owned, was located in the middle of a road widening project undertaken by the Georgia Department of Transportation and Gwinnett County. As a result, Gwinnett County, filed a declaration of taking and condemnation petition on January 24, 2007, taking the majority of the property. On April 17, 2007, we received $210,694 from Gwinnett County as compensation for a portion of the building and land. We have filed an appeal based on the amount of just and fair compensation, which includes the (a) fair market value of the property taken, (b) any consequential damage to the remaining property, and (c) any business loss resulting from the taking. We are working with Gwinnett County and a mediator to settle the final amount of compensation to be paid to Speedemissions by Gwinnett County for the building, land and loss of business. We occupied the building and continued to perform emission tests at the location until June 8, 2007.

Property and equipment at June 30, 2007 and December 31, 2006 was as follows:

	June 30, 2007	December 31, 2006
Land	$ 0	$ 240,000
Building	0	10,000
Emission testing equipment	1,207,248	1,194,527
Furniture, fixtures and office equipment	78,873	72,364
Vehicles	15,607	23,775
Leasehold improvements	703,385	644,930
	2,005,113	2,185,596
Less accumulated depreciation and amortization	1,063,900	956,267
	$ 941,213	$ 1,229,329

Note 3: Debt Payable

On April 19, 2007, we used proceeds received from the sale of the Lawrenceville property to repay a $60,000 bank debt secured by the property and $231 in accrued interest. The unpaid principal and interest unpaid principal and interest was $0 and $60,000 as of June 30, 2007 and December 31, 2006.

On April 20, 2007, we used proceeds received from the sale of the Lawrenceville property the to repay a note payable to V2R, Inc. (V2R), which is controlled by Bahram Yusdfzadeh, a former director of the Company. The note bears interest at 10% per annum. The principal and accrued interest repaid was $60,934. The unpaid principal and interest was $0 and $59,332 as of June 30, 2007 and December 31, 2006, respectively.

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Note 4: Net Income Per Common Share

Net income per share has been computed according to SFAS No. 128, Earnings per Share, which requires a dual presentation of basic and diluted earnings per share (EPS). Basic EPS represents net income divided by the weighted average number of common shares outstanding during a reported period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, including stock options, warrants, and contingently issuable shares such as the Company s Series A and Series B preferred stock (commonly and hereinafter referred to as Common Stock Equivalents), were exercised or converted into common stock.

The following table sets forth the computation for basic and diluted net income per share for the three and six month periods ended June 30, 2007 and 2006, respectively:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Net income (A)	$ 101,687	$ 79,104	$ 49,559	$ 107,184
Weighted average common shares basic (B)	3,016,119	2,888,642	2,989,969	2,825,910
Effect of dilutive securities (2):				
Diluted effect of stock options (1)				
Diluted effect of stock warrants (1)	2,500	287,500	2,500	287,500
Diluted effect of unrestricted preferred Series A Shares	4,277,498	4,277,498	4,277,498	4,277,498