

SPEDEMISSIONS INC  
Form 10QSB  
November 13, 2007  
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## Form 10-QSB

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

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## Speedemissions, Inc.

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

|   |   |
|---|---|
| <b>Florida</b>  | <b>33-0961488</b>                       |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |
| <b>1015 Tyrone Road</b>   |   |
| <b>Suite 220</b>  |   |
| <b>Tyrone, GA</b>   | <b>30290</b>                            |
| (Address of principal executive offices)                          | (Zip Code)                              |
| <b>Issuer's telephone number (770) 306-7667</b>                   |   |

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.

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Yes  No

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

As of November 5, 2007, there were 5,162,108 shares of common stock, par value \$0.001, issued and outstanding.

**Transitional Small Business Disclosure Format**

(check one):

Yes  No

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**Speedemissions, Inc.**

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**PART I**

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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.

**Table of Contents****ITEM 1 Financial Statements  
Speedemissions, Inc. and Subsidiaries****Consolidated Balance Sheets**

| <b>Assets</b>   | <b>September 30,<br/>2007<br/>(unaudited)</b> | <b>December 31,<br/>2006</b> |
|---|---|------------------------------|
| <b>Current assets:</b>  |   |                              |
| Cash  | \$ 946,576                                    | \$ 320,231                   |
| Other current assets  | 219,985                                       | 224,930                      |
| Total current assets  | 1,166,561                                     | 545,161                      |
| Property and equipment, at cost less accumulated depreciation and amortization  | 909,838                                       | 1,229,329                    |
| Goodwill  | 7,100,572                                     | 7,100,572                    |
| Other assets  | 81,863  | 59,926                       |
| Total assets  | \$ 9,258,834                                  | \$ 8,934,988                 |
| <b>Liabilities and Shareholders' Equity</b>   |   |                              |
| <b>Current liabilities:</b>   |   |                              |
| Accounts payable  | \$ 308,529                                    | \$ 318,297                   |
| Accrued liabilities   | 403,716                                       | 532,984                      |
| Debt payable  |   | 111,747                      |
| Current portion of capitalized lease obligations  | 5,306   | 12,925                       |
| Total current liabilities   | 717,551                                       | 975,953                      |
| Other liabilities   | 108,250                                       | 113,848                      |
| <b>Commitments and contingencies</b>  |   |                              |
| <b>Shareholders' equity:</b>  |   |                              |
| 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, 5,162,108 and 2,963,528 shares issued and outstanding in 2007 and 2006, respectively   | 5,162   | 2,964                        |
| Additional paid-in capital  | 20,137,857                                    | 19,622,834                   |
| Deferred compensation   | (13,189)                                      | (17,437)                     |
| Accumulated deficit   | (11,699,283)                                  | (11,765,660)                 |
| Total shareholder equity  | 8,433,033                                     | 7,845,187                    |
| Total liabilities and shareholders' equity  | \$ 9,258,834                                  | \$ 8,934,988                 |

*See accompanying notes to consolidated financial statements.*



**Table of Contents****Speedemissions, Inc. and Subsidiaries****Consolidated Statements of Income****(unaudited)**

|   | Three Months Ended<br>September 30 |              | Nine Months Ended<br>September 30 |              |
|---|------------------------------------|--------------|-----------------------------------|--------------|
|   | 2007                               | 2006         | 2007                              | 2006         |
| Revenue   | \$ 2,524,988                       | \$ 2,484,492 | \$ 7,406,415                      | \$ 7,286,789 |
| Costs and expenses:                                 |                                    |              |                                   |              |
| Cost of emission certificates                       | 628,807                            | 601,186      | 1,831,587                         | 1,842,776    |
| Store operating expenses                            | 1,398,204                          | 1,426,122    | 4,284,209                         | 4,155,151    |
| General and administrative expenses                 | 482,121                            | 352,838      | 1,210,034                         | 1,081,971    |
| Income from operations                              | 15,856                             | 104,346      | 80,585                            | 206,891      |
| (Gain) loss from disposal of non-strategic assets   |                                    | 479          | 11,735                            | (9,993)      |
| Interest (income) expense, net                      | (961)                              | 2,325        | 2,473                             | 8,158        |
| Net income  | \$ 16,817                          | \$ 101,542   | \$ 66,377                         | \$ 208,726   |
| Net income per share (basic)                        | \$ 0.01                            | \$ 0.03      | \$ 0.02                           | \$ 0.07      |
| Net income per share (diluted)                      | \$ 0.00                            | \$ 0.01      | \$ 0.01                           | \$ 0.03      |
| Weighted average common shares outstanding, basic   | 3,173,685                          | 2,903,744    | 3,051,881                         | 2,852,140    |
| Weighted average common shares outstanding, diluted | 7,452,695                          | 7,468,742    | 7,330,940                         | 7,417,138    |

*See accompanying notes to consolidated financial statements.*

**Table of Contents****Speedemissions, Inc. and Subsidiaries****Consolidated Statements of Cash Flows****(Unaudited)**

|   | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2007</b>                                | <b>2006</b> |
| <b>Operating activities:</b>  |  |             |
| Net income  | \$ 66,377                                  | \$ 208,726  |
| Adjustments to reconcile net loss to net cash provided by operating activities: |  |             |
| Depreciation and amortization   | 203,928                                    | 291,439     |
| (Gain) loss from disposal of non-strategic assets                               | 11,735                                     | (9,993)     |
| Share based compensation expenses   | 98,149                                     | 65,078      |
| Stock issued for services   |  | 68,500      |
| Changes in operating assets and liabilities, net of acquisitions:               |  |             |
| Other current assets  | 40,417                                     | (27,915)    |
| Other assets  | (21,937)                                   | (11,525)    |
| Accounts payable and accrued liabilities  | (45,835)                                   | (168,345)   |
| Net cash provided by operating activities                                       | 352,834                                    | 415,965     |
| <b>Cash flows from investing activities:</b>                                    |  |             |
| Acquisition of businesses   |  | (100,000)   |
| Proceeds from asset sales   | 211,094                                    | 14,854      |
| Purchases of property and equipment   | (138,491)                                  | (153,684)   |
| Net cash provided by (used in) investing activities                             | 72,603                                     | (238,830)   |
| <b>Cash flows from financing activities:</b>                                    |  |             |
| Proceeds from sale of common stock  | 319,072                                    |             |
| Payments on debt  | (111,747)                                  |             |
| Payments on capitalized leases  | (6,417)                                    | (16,419)    |
| Net cash provided by (used in) financing activities                             | 200,908                                    | (16,419)    |
| Net increase in cash  | 626,345                                    | 160,716     |
| Cash at beginning of period   | 320,231                                    | 250,227     |
| Cash at end of period   | \$ 946,576                                 | \$ 410,943  |
| <b>Supplemental Information:</b>  |  |             |
| Cash paid during the year for interest  | \$ 14,058                                  | \$ 4,277    |
| <b>Non-cash Investing and Financing activities:</b>                             |  |             |
| Equity securities issued in connection with acquisitions                        | \$ 100,000                                 | \$ 100,000  |

*See accompanying notes to consolidated financial statements.*





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### **Speedemissions, Inc.**

### **Notes to Consolidated Financial Statements**

**September 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 November 5, 2007, we operated 36 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. 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 September 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 prepared 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 September 30, 2007, the Company had cash on hand of \$946,576, working capital of \$449,010, and an accumulated deficit of \$11,699,283. The Company had net income available to common shareholders of \$101,542 and positive cash flows from operations of \$352,834 for the nine months ended September 30, 2007. The ability of the Company to continue as a going concern is dependent upon the Company's ability to 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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### **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 36 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 income.

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.

### **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.

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### **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.

### **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

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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: 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 nine month periods ended September 30, 2007 and 2006, respectively:

|  | Three Months Ended |            | Nine Months Ended |            |
|--|--------------------|------------|-------------------|------------|
|  | September 30       |            | September 30      |            |
|  | 2007               | 2006       | 2007              | 2006       |
| Net income (A)   | \$ 16,817          | \$ 101,542 | \$ 66,377         | \$ 208,726 |
| Weighted average common shares<br>basic (B)                  | 3,173,685          | 2,903,744  | 3,051,881         | 2,852,140  |
| Effect of dilutive securities (2):                           |                    |            |                   |            |
| Dilutive effect of stock options (1)                         |                    |            |                   |            |
| Dilutive effect of stock warrants (1)                        | 1,512              | 287,500    | 1,561             | 287,500    |
| Dilutive effect of unrestricted<br>preferred Series A Shares | 4,277,498          | 4,277,498  | 4,277,498         | 4,277,498  |
| Weighted average common shares<br>diluted (C)                | 7,452,695          | 7,468,742  | 7,330,940         | 7,417,138  |
| Net income per share basic (A/B)                             | \$ 0.01            | \$ 0.03    | \$ 0.02           | \$ 0.07    |
| Net income per share diluted (A/C)                           | \$ 0.00            | \$ 0.01    | \$ 0.01           | \$ 0.03    |

- (1) Because their effects are anti-dilutive, 17,741,014 and 17,723,962 shares issuable under stock option plans and stock warrants whose grant price is greater than the average market price of Common Shares outstanding at the end of the relevant period have been excluded from the computation of weighted average common shares diluted for the three and nine months ended September 30, 2007 and 2006, respectively.
- (2) Series B convertible preferred stock held by Barron Partners, LP do not have voting rights and are subject to a maximum ownership by Barron Partners, LP at any time of 4.9% of the Company's outstanding common stock. As a result, Common Share Equivalents of the Series B convertible preferred stock of 18,760,000 are anti-dilutive and have been excluded from the weighted average common shares (diluted) calculation for the three and nine months ended September 30, 2007 and 2006.

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### **Note 3: Stockholders Equity**

#### **Preferred Stock**

There were 5,133 shares of Series A convertible preferred stock issued and outstanding as of September 30, 2007 and December 31, 2006, respectively.

There were 2,481,482 shares Series B convertible preferred stock issued and outstanding as of September 30, 2007 and December 31, 2006, respectively.

#### **Common Stock**

On September 24, 2007, the Company issued 2,127,150 shares of our common stock pursuant to a private placement for a cash purchase price of \$0.15 per share, plus the surrender of warrants to purchase 2,127,150 shares of common stock. The total offering price was \$319,072. The issuance of common stock pursuant to the private placement was exempt from registration pursuant to Section 4 (2) of the Securities Act of 1933, as amended and Rule 506 promulgated thereunder.

Proceeds from the offering are expected to be used to fund the Company's growth into two new markets: Dallas, Texas and St. Louis, Missouri. The Company expects to open between twelve and seventeen stores combined in these markets by March 31, 2008, subject to standard emission and safety station licensing approval from the respective state regulatory agencies.

The Company is authorized to issue 250,000,000 shares of \$0.001 par value common stock, of which 5,162,108 and 2,963,528 shares were issued and outstanding as of September 30, 2007 and December 31, 2006, respectively.

### **Note 4: Share-Based Compensation**

The Company accounts for stock-based compensation pursuant to SFAS No. 123(R), Share-Based Payment, which requires measurement of compensation cost for all stock awards at fair value on the date of grant and recognition of compensation over the requisite service period for awards expected to vest. The Company estimates the fair value of stock options using the Black-Scholes valuation model, and determines the fair value of restricted stock units based on the number of shares granted and the quoted price of Speedemissions' common stock on the date of grant. Such value is recognized as expense over the requisite service period, net of estimated forfeitures, using the straight-line attribution method. The estimate of awards that will ultimately vest requires significant judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class and historical employee attrition rates. Actual results, and future changes in estimates, may differ substantially from the Company's current estimates.

Stock-based compensation expense was \$34,132 and \$8,071 during the three months ended September 30, 2007 and 2006, respectively.

Stock-based compensation expense was \$102,397 and \$69,326 during the nine months ended September 30, 2007 and 2006, respectively.

#### **Stock Option Plans**

The Company has granted options to employees and directors to purchase the Company's common stock under various stock incentive plans. Under the plans, employees and non-employee directors are eligible to receive awards of various forms of equity-based incentive compensation, including stock options, restricted stock, restricted stock units and performance awards, among others. The plans are administered by the Board of Directors and Compensation Committee of the Board of Directors, which

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determine the terms of the awards granted. Stock options are generally granted with an exercise price equal to the market value of Speedemissions, Inc. common stock on the date of grant, have a term of ten years or less, and generally vest over three years from the date of grant.

The following table sets forth the options granted under the Speedemissions Stock Option Plans as of September 30, 2007:

|  | Stock<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--|------------------|--|--|---------------------------------|
| Outstanding at December 31, 2006             | 2,290,625        | \$ 0.69                                  |  |                                 |
| Granted                                      |                  |  |  |                                 |
| Forfeited/Cancelled                          | (34,900)         | 0.64                                     |  |                                 |
| Outstanding at September 30, 2007            | 2,255,725        | \$ 0.70                                  | 8.82                                       | \$ 0                            |
| Vested and exercisable at September 30, 2007 | 879,592          | \$ 0.84                                  | 8.61                                       | \$ 0                            |

The aggregate intrinsic value of options outstanding and exercisable at September 30, 2007 was \$0. Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of the options.

As of September 30, 2007, there was \$110,902 of unrecognized stock-based compensation expense related to non-vested stock options. This amount will be recognized over the vesting periods, as stated in the option agreements. No shares vested during the nine months ended September 30, 2007.

The following table represents our non-vested stock options and warrant activity for the nine months ended September 30, 2007:

|            |                    | Number<br>of<br>Options/<br>Warrants | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|------------|--------------------|--------------------------------------|--|
| Non-vested | December 31, 2006  | 1,396,900                            | \$ 0.60  |
| Granted    |                    |                                      |  |
| Vested     |                    |                                      |  |
| Forfeited  |                    | (22,433)                             | 0.60   |
| Non-vested | September 30, 2007 | 1,374,467                            | \$ 0.60  |

There were 2,255,725 and 2,290,625 shares issued and outstanding under the Company's SKTF, Inc. 2001 Stock Option Plan, the 2005 Omnibus Stock Grant and Option Plan and Speedemissions Inc. 2006 Stock Grant and Option Plan as of September 30, 2007 and December 31, 2006, respectively. There were no options granted or exercised during the nine month period ended September 30, 2007.

**Stock Warrants**

There were 15,487,789 and 17,700,437 common stock warrants issued and outstanding as of September 30, 2007 and December 31, 2006, respectively. There were no common stock warrants granted or exercised during the nine month period ended September 30, 2007. Pursuant to a private placement of common stock as discussed in Note 3, 2,127,150 warrants were surrendered during the three and nine month periods ended September 30, 2007. See Note 7 Subsequent Events for additional disclosure of stock warrant activity.

**Note 5: Income Taxes**

No provision for income taxes has been reflected for the nine month period ended September 30, 2007 as the Company has sufficient net operating loss carry forwards to offset taxable income.

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**Note 6: Contingencies**

The Company may from time to time be involved in various proceedings and litigation arising in the ordinary course of business. While any proceeding or litigation has an element of uncertainty, the Company believes that the outcome of any lawsuit or claim that may be pending or threatened, or all of them combined, will not have a material adverse effect on its consolidated financial position or results of operations.

**Note 7: Subsequent Events**

The Company consummated and adopted the following plan of recapitalization effective as of the close of Business on October 12, 2007. Barron Partners LP surrendered all 12,587,431 of their common stock purchase warrants in exchange for 4,195,810 warrants at an exercise price of \$0.90 per share, 4,195,810 warrants at an exercise price of \$0.60 per share and 4,195,811 warrants at an exercise price of \$0.30 per share. Global Capital Funding Group, L.P. surrendered all 2,400,000 of their common stock purchase warrants in exchange for 800,000 warrants at an exercise price of \$0.90 per share, 800,000 warrants at an exercise price of \$0.60 per share and 800,000 warrants at an exercise price of \$0.30 per share.



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### **ITEM 2 Management's Discussion and Analysis or Plan of Operation Disclaimer Regarding Forward Looking Statements**

Our Management's Discussion and Analysis contains not only statements that are historical facts, but also statements that are forward-looking (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Forward-looking statements are, by their very nature, uncertain and risky. These risks and uncertainties include international, national and local general economic and market conditions; demographic changes; our ability to sustain, manage, or forecast growth; our ability to successfully make and integrate acquisitions; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant store leases, customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other risks that might be detailed from time to time in our filings with the Securities and Exchange Commission.

Although the forward-looking statements in this Quarterly Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. Consequently, and because forward-looking statements are inherently subject to risks and uncertainties, the actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in this report and in our other reports as we attempt to advise interested parties of the risks and factors that may affect our business, financial condition, and results of operations and prospects.

#### **Overview**

As of September 30, 2007 we operated 35 vehicle emissions testing stations and four mobile units in three separate markets, greater Atlanta, Georgia, Houston, Texas and greater Salt Lake City, Utah. On October 30, 2007, we opened one new store in Houston, Texas, increasing the number of stores to 36. We do not provide automotive repair services at our centers because we believe that it inhibits our ability to provide timely customer service and creates a perception that our test results might be compromised.

Since September 30, 2006, we have opened one new store in Atlanta and three new stores in Houston. We believe there is an opportunity for us to grow our store base to 45 to 50 stores in 2008 by opening company-owned stations in existing markets as well as in new markets such as Dallas, Texas and St. Louis, Missouri. We continually reassess our store rollout plans based on numerous factors including the overall environment of the emissions testing industry, our access to working capital and external financing and the availability of suitable locations. This growth may be curtailed if we do not have adequate working capital, access to financing, as a cost containment initiative, or if we are unable to obtain the standard emission and safety station licensing approval from the respective state regulatory agencies for each location.

We have undertaken cost containment and customer service initiatives over the past twelve months that have resulted in an increase of 21.3% and 19.7% in same store operating margins during the three and nine months ended September 30, 2007 over the comparable periods. We expect our revenue to increase in 2007 and 2008 but our overall store operating margins and overall profitability may be adversely affected in 2007 and 2008 as we continue to invest in new emissions testing stations. Opening stations in new markets involves initial infrastructure costs and sales and marketing costs to add loyal customers who can generate recurring revenue for the Company.

We charge a fee for each test, whether it passes or not, and a portion of that fee is passed on to the state governing agency. In Georgia, the maximum fee that we can charge for an emissions test is \$25.00.

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and a fee of \$6.95 is paid to the State of Georgia; Georgia does not require a safety inspection. In Texas, the maximum fee that we can charge is \$39.75, for both an emissions test and a safety inspection, and a fee varying between approximately \$7.50 and \$14.25 per certificate, depending on the type of test is paid to the State of Texas. In Utah, there is not a maximum fee that we can charge in Salt Lake County. We charge \$38.00 for an emissions test and \$17.00 for a safety inspection and remit a fee of \$1.80 to the County per emissions certificate and \$2.00 to the Utah Highway Patrol for each safety inspection. There is a maximum of \$25.00 and \$17.00 that we can charge in Weber County, Utah for an emissions test and safety inspection respectively. A fee of \$3.00 is remitted to Weber County per emissions certificate and a \$2.00 fee is remitted to the Utah Highway Patrol for each safety inspection.

**Results of Operations****Three Months Ended September 30, 2007 and 2006**

Our revenue, cost of emission certificates, store operating expenses, general and administrative expenses and income from operations for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006 were as follows:

|                                     | <b>Three Months Ended</b> |                   |                   |
|-------------------------------------|---------------------------|-------------------|-------------------|
|                                     | <b>September 30</b>       |                   |                   |
|                                     | <b>2007</b>               | <b>2006</b>       | <b>Percentage</b> |
|                                     |                           |                   | <b>Change</b>     |
| Revenue                             | \$ 2,524,988              | \$ 2,484,492      | 1.6%              |
| Cost of emission certificates       | 628,807                   | 601,186           | 4.6%              |
| Store operating expenses            | 1,398,204                 | 1,426,122         | (2.0%)            |
| General and administrative expenses | 482,121                   | 352,838           | 36.6%             |
| <b>Income from operations</b>       | <b>\$ 15,856</b>          | <b>\$ 104,346</b> | <b>(84.7%)</b>    |

*Revenue.* Revenue increased \$40,496 or 1.6% to \$2,524,988 in the three months ended September 30, 2007 compared to \$2,484,492 in the three months ended September 30, 2006. The increase in revenue over the comparable period was primarily due to an increase in same store sales of \$28,126 or 1.2%, an increase of \$51,091 from four new stores that were not open for the entire comparable period in the three months ended September 30, 2006, offset by the loss of \$38,710 in revenue from the closure of our Lawrenceville, Georgia store where Gwinnett County acquired the property for a road widening project.

*Cost of emission certificates.* Cost of emission certificates increased \$27,621 or 4.6% in the three month period ended September 30, 2007 and was \$628,807 or 24.9% of revenues, compared to \$601,186 or 24.2% of revenues in the three months ended September 30, 2006. The increase was primarily due to an increase in same store emissions tests performed which resulted in higher cost of emission certificates of \$21,442, and an increase of \$17,627 for tests performed at new stores that have opened since August 2006. The receipt of a \$5,229 one-time price rebate in August 2006 from the former administrators of the Utah emissions program contributed to the percentage increase in our emissions certificates being higher than our percentage increase in revenue for the comparable periods. The increase was offset by a reduction in certificate costs of \$11,449 resulting from the closure of the Lawrenceville store discussed above.

*Store operating expenses.* Store operating expenses decreased \$27,918, or (2.0%) in the three month period ended September 30, 2007 and was \$1,398,204 or 55.4% of revenues, compared to \$1,426,122 or 57.4% of revenues in the three month period ended September 30, 2006. The decrease was primarily due to a decrease of \$93,016 in same store operating expenses and \$23,544 resulting from the closure of the Lawrenceville store. The decrease was offset by \$90,441 in new store operating expenses that have opened since August 2006 and higher personnel costs from the implementation of store employee incentives and additional personnel required to provide our customers with improved service and customer satisfaction.

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*General and administrative expenses.* Our general and administrative expenses increased \$129,283 or 36.6% to \$482,121 in the three month period ended September 30, 2007 from \$352,838 in the three month period ended September 30, 2006. The increase in general and administrative expenses was primarily due to an increase in Sarbanes Oxley compliance costs, consulting, legal and accounting fees and stock option compensation expense.

*(Gain) loss from disposal of non-strategic assets, Interest Expense, Net Income and Earnings Per Share* Our (gain) loss from disposal of non-strategic assets, interest expense, net income (loss) and earnings per share for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006 is as follows:

|  | <b>Three Months Ended<br/>September 30</b> |             |
|--|--|-------------|
|  | <b>2007</b>                                | <b>2006</b> |
| Income from operations                       | \$ 15,856                                  | \$ 104,346  |
| Loss from disposal of non-strategic assets   |  | 479         |
| Interest (income) expense, net               | (961)                                      | 2,325       |
| Net Income                                   | \$ 16,817                                  | \$ 101,542  |
| Basic income per share                       | \$ 0.01                                    | \$ 0.03     |
| Diluted income per share                     | \$ 0.00                                    | \$ 0.01     |
| Weighted average shares outstanding, basic   | 3,173,685                                  | 2,903,744   |
| Weighted average shares outstanding, diluted | 7,452,695                                  | 7,468,742   |

During the three months ended September 30, 2006, the Company incurred a loss of \$479 on the disposal of non-strategic assets as compared to no gain or loss in the comparable period ended September 30, 2007.

Our net interest income earned increased \$3,286 during the three months ended September 30, 2007 and resulted in a net interest income of \$961 compared to net interest expense of \$2,325 for the three months ended September 30, 2006. The Company repaid debt in April 2007, which resulted in lower interest expense and an overall net interest income for the three months ended September 30, 2007.

During the three months ended September 30, 2007, we had net income of \$16,817 or \$0.01 per weighted-average share-basic and \$0.00 per weighted-average share-diluted. During the three months ended September 30, 2006, we reported net income of \$101,542 or \$0.03 per weighted-average share-basic and \$0.01 per weighted-average share-diluted.

**Nine Months Ended September 30, 2007 and 2006**

Our revenue, cost of emission certificates, store operating expenses, general and administrative expenses and income from operations for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006 were as follows:

|                                     | <b>Nine Months Ended<br/>September 30</b> |              | <b>Percentage<br/>Change</b> |
|-------------------------------------|---|--------------|------------------------------|
|                                     | <b>2007</b>                               | <b>2006</b>  |                              |
| Revenue                             | \$ 7,406,415                              | \$ 7,286,789 | 1.6%                         |
| Cost of emission certificates       | 1,831,587                                 | 1,842,776    | (0.6%)                       |
| Store operating expenses            | 4,284,209                                 | 4,155,151    | 3.1%                         |
| General and administrative expenses | 1,210,034                                 | 1,081,971    | 11.8%                        |

|                        |           |            |         |
|------------------------|-----------|------------|---------|
| Income from operations | \$ 80,585 | \$ 206,891 | (61.0%) |
|------------------------|-----------|------------|---------|

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*Revenue.* Revenue increased \$119,626 or 1.6% to \$7,406,415 in the nine months ended September 30, 2007 compared to \$7,286,789 in the nine months ended September 30, 2006. The increase in revenue over the comparable period was primarily due to an increase in same store sales of \$227,310 or 3.2%, an increase of \$85,385 from three new stores that were not open for a full nine months in the period ended September 30, 2006, offset by the loss of \$193,069 in revenue from the closure of a single store in Houston where the landlord sold the property upon the expiration of our lease in April 2006 and the closure of our Lawrenceville, Georgia store where Gwinnett County acquired the property for a road widening project.

*Cost of emission certificates.* Cost of emission certificates decreased \$11,189 or (0.6%) in the nine month period ended September 30, 2007 and was \$1,831,587 or 24.7% of revenues, compared to \$1,842,776 or 25.3% of revenues in the nine months ended September 30, 2006. The decrease was primarily due to a decrease on April 1, 2006 in the cost of emission certificates in Salt Lake County Utah from \$3.60 to \$1.80 per certificate and a reduction in certificate costs of \$60,458 resulting from the closure of the two stores discussed above. The decrease was offset by an increase in same store emissions tests performed which resulted in higher cost of emission certificates and an increase of \$28,611 for tests performed at new stores that have opened since August 2006.

*Store operating expenses.* Store operating expenses increased \$129,058, or 3.1% in the nine month period ended September 30, 2007 and was \$4,284,209 or 57.8% of revenues, compared to \$4,155,151 or 57.0% of revenues in the nine month period ended September 30, 2006. The increase was primarily due to \$254,054 in new store operating expenses. Also contributing to the increase were higher personnel costs from the implementation of store employee incentives and additional personnel required to provide our customers with improved service and customer satisfaction. The increase was offset by a decrease in same store operating expenses of \$39,567 and a decrease of \$83,729 resulting from the closure of the two stores discussed above.

*General and administrative expenses.* Our general and administrative expenses increased \$128,063, or 11.8% to \$1,210,034 in the nine month period ended September 30, 2007 from \$1,081,971 in the nine month period ended September 30, 2006. The increase in general and administrative expenses was primarily due to an increase in Sarbanes Oxley compliance costs, consulting, legal and accounting fees and stock option compensation expense.

*(Gain) loss from disposal of non-strategic assets, Interest Expense, Net Income and Earnings Per Share* Our (gain) loss from disposal of non-strategic assets, interest expense, net income (loss) and earnings per share for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006 is as follows:

|   | Nine Months Ended<br>September 30 |            |
|---|-----------------------------------|------------|
|   | 2007                              | 2006       |
| Income from operations                            | \$ 80,585                         | \$ 206,891 |
| (Gain) loss from disposal of non-strategic assets | 11,735                            | (9,993)    |
| Interest expense, net                             | 2,473                             | 8,158      |
| Net Income  | \$ 66,377                         | \$ 208,726 |
| Basic income per share                            | \$ 0.02                           | \$ 0.07    |
| Diluted income per share                          | \$ 0.01                           | \$ 0.03    |
| Weighted average shares outstanding, basic        | 3,051,881                         | 2,852,140  |
| Weighted average shares outstanding, diluted      | 7,330,940                         | 7,417,138  |

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During the nine months ended September 30, 2007, the Company incurred a loss of \$11,735 on the disposal of non-strategic assets associated with the store closings as discussed above as compared to a gain of \$9,993 in the comparable period ended September 30, 2006.

Our net interest expense decreased \$5,685 during the nine months ended September 30, 2007 and was \$2,473 compared to \$8,158 for the nine months ended September 30, 2006. The Company repaid debt in April 2007, which resulted in the lower interest expense.

During the nine months ended September 30, 2007, we had net income of \$66,377 or \$0.02 per weighted-average share-basic and \$0.01 per weighted-average share-diluted. During the nine months ended September 30, 2006, we reported net income of \$208,726 or \$0.07 per weighted-average share basic and \$0.03 per weighted-average share-diluted.

## **Liquidity and Capital Resources**

### **Introduction**

We generated positive operating cash flows of \$352,834 and \$415,965 in the nine months ended September 30, 2007 and September 30, 2006, respectively. As we continue to implement our growth strategy, we anticipate an increase in our net operating cash flow on a long-term basis, but with the increased costs of expanding our operations, may not achieve positive operating cash flow comparable to prior periods on a consistent basis during 2007. The Company has funded operations and acquisitions primarily through the issuance of equity securities and cash provided from operations. In the future we may continue to issue our equity securities in order to raise additional capital to fund expansion.

### **Cash Requirements**

For the nine months ended September 30, 2007 and September 30, 2006, our net cash provided by operating activities was \$352,834 and \$415,965. Positive operating cash flows during the nine months ended September 30, 2007 were primarily created by net income of \$66,377, a decrease in other current assets of \$40,417, depreciation and amortization of \$203,928, losses recognized from the sale of non-strategic assets of 11,735 and share based compensation expenses of \$98,149, partially offset by a decrease of \$45,835 in accounts payable and accrued liabilities and an increase in other assets of \$21,937. Because of our growth strategy, we do not have an opinion as to how indicative these results will be of future results.

Positive operating cash flows during the nine months ended September 30, 2006 were primarily created by a net income from operations of \$208,726, from non-cash stock related expenses of \$133,578 plus depreciation and amortization of \$291,439, partially offset by a decrease of \$168,345 in accounts payable and accrued liabilities and an increase in other current assets of \$27,915 and an increase in other assets of \$11,525.

### **Sources and Uses of Cash**

Prior to January 1, 2006, we had not generated sufficient cash flow from operations to fund growth as we continued to acquire and open new emissions testing stations. However, cash flows from operations for the last twenty-one months have generated sufficient profits to cover operating expenses, and

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we have used some of these profits to open new stores and reduce our liabilities. Overall net cash flow from operations may be adversely affected in 2007 as we continue to invest in new emissions testing stations in the new markets of Dallas and St. Louis and increase the number of stores in our existing markets; however, we do seek to effectively manage expenses associated with our existing operations and working capital to mitigate the adverse impact our growth initiatives are expected to have on our operational cash flow.

Net cash provided by (used in) investing activities was \$72,603 and (\$238,830) for the nine months ended September 30, 2007 and 2006, respectively. The investing activities during the nine months ended September 30, 2007 were due to proceeds of \$211,094 received from the sale of equipment and our Lawrenceville, Georgia location to Gwinnett County for a road widening project and capital expenditures related to the building of new stores and the purchase of equipment in the amount of \$138,491. The cash used in investing activities during the nine months ended September 30, 2006 included capital expenditures related to the building of new stores and other property and equipment in the amount of \$153,684 and payment of \$100,000 previously withheld for contingent liabilities on the acquisition price of Just, Inc., offset by the receipt of \$14,854 related to the sale of emissions testing equipment. Management continuously reviews industry and economic conditions to identify opportunities to pursue acquisitions of competitors and we expect to invest in new stores in new and existing markets.

Net cash provided by (used in) financing activities was \$200,908 and (\$16,419) for the nine months ended September 30, 2007 and 2006, respectively. During the nine months ended September 30, 2007, we received proceeds from the sale of common stock of \$319,072 as discussed above in Note 3, repaid \$111,747 in debt and made payments of \$6,417 on capital leases. Net cash used in financing activities during the nine months ended September 30, 2007 and 2006 resulted primarily from the payment of capital leases.

## **Critical Accounting Policies**

The discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In consultation with our Board of Directors, the Company has identified accounting policies related to valuation of our common stock and for assessing whether any value should be assigned to a warrant that we believe are key to an understanding of its financial statements. Additionally, the Company has identified accounting policies related to the valuation of goodwill, created as the result of business acquisitions, as key to an understanding of its financial statements. These are important accounting policies that require management's most difficult, subjective judgments.

## **ITEM 3 Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer (or those persons performing similar functions), after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2007 (the Evaluation Date), have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. There were no changes in the Company's internal controls over financial reporting during the nine months ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, the internal controls as of the Evaluation Date.

**Table of Contents****PART II****ITEM 1 Legal Proceedings**

As of September 30, 2007, neither the Company nor its subsidiaries is a party to nor is any of our property subject to any material or other pending legal proceedings that would materially adversely affect our operations.

**ITEM 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-KSB for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-KSB are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

There have been no material changes to the risk factors disclosed in Item 1A in our Form 10-KSB for the year ended December 31, 2006.

**ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds**

On September 24, 2007, the Company issued 2,127,150 shares of our common stock pursuant to a private placement for a cash purchase price of \$0.15 per share, plus the surrender of warrants to purchase 2,127,150 shares of common stock. The total offering price was \$319,072. The issuance of common stock pursuant to the private placement was exempt from registration pursuant to Section 4 (2) of the Securities Act of 1933, as amended and Rule 506 promulgated thereunder.

Proceeds from the offering are expected to be used to fund the Company's growth into two new markets: Dallas, Texas and St. Louis, Missouri. The Company expects to open between twelve and seventeen stores combined in these markets by March 31, 2008.

**ITEM 3 Defaults Upon Senior Securities**

There have been no events that are required to be reported under this Item.

**ITEM 4 Submission of Matters to a Vote of Security Holders**

The Annual Meeting of our stockholders was held on July 30, 2007 to elect five directors and to ratify the appointment of Tauber & Balsler, P.C. as independent registered public accountants for the fiscal year ending December 31, 2007. All matters put before the stockholders were approved as follows:

| <u>Proposal 1</u> | <u>Election of Directors</u>  | <u>For</u> | <u>Against</u> | <u>Abstained</u> |
|-------------------|---|------------|----------------|------------------|
|                   | Richard A. Parlontieri  | 6,084,738  |                | 1,227,718        |
|                   | Bradley A. Thompson   | 6,084,738  |                | 1,227,718        |
|                   | Ernest A. Childs  | 6,084,738  |                | 1,227,718        |
|                   | John Bradley  | 6,084,738  |                | 1,227,718        |
|                   | Michael E. Guirlinger   | 6,084,738  |                | 1,227,718        |
| <u>Proposal 2</u> | <u>Ratification of Appointment of Independent Registered Public Accountants</u> | 6,084,738  |                | 1,227,718        |





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A more detailed description of each agenda item at the annual shareholders meeting can be found in our Schedule 14A Information Required in Proxy Statement dated July 16, 2007.

**ITEM 5 Other Information**

There have been no events that are required to be reported under this Item.

**ITEM 6 Exhibits**

- (a) Exhibits
  - 4.1 Amended and Restated Plan of Recapitalization effective as of October 12, 2007
  - 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
  - 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
  - 32 Section 1350 Certifications

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SPEEDEMISSIONS, INC.**

Date: November 13, 2007

By: /s/ Richard A. Parlontieri  
Richard A. Parlontieri

President

Date: November 13, 2007

By: /s/ Michael Shanahan  
Michael Shanahan

Chief Financial Officer