

SPEDEMISSIONS INC  
Form 10QSB/A  
April 15, 2005

**U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**First Amended  
Form 10-QSB/A**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended September 30, 2004**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

**Commission file number: 000-49688**

**Speedemissions, Inc.**

(Exact name of registrant as specified in its charter)

**Florida**

(State or other jurisdiction of  
incorporation or organization)

**1139 Senoia Road**

**Suite B**

**Tyrone, GA**

(Address of principal executive offices)

**33-0961488**

(I.R.S. Employer  
Identification No.)

**30290**

(Zip Code)

**Registrant's telephone number, including area code (770) 306-7667**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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  No

**Applicable only to issuers involved in bankruptcy proceedings during the preceding five years**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes  No

**Applicable only to corporate issuers**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of November 12, 2004, there were 24,229,094 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

### Explanatory Note

Speedemissions, Inc. has restated its Quarterly Report on Form 10-QSB. This Quarterly Report is for the quarter ended September 30, 2004, and was originally filed with the Commission on November 15, 2004. The purpose of this amendment is to correct our general and administrative expenses, which were recorded incorrectly in the quarter ended September 30, 2004, related to shares of our common stock, which were issued pursuant to an anti-dilution clause. Additionally, the purpose of this amendment is to correct our general and administrative expenses, which were recorded incorrectly in the quarters ended September 30, 2004 and June 30, 2004, related to sales of our common stock and warrants. References throughout this Quarterly Report are accurate as of the date originally filed. The Company has not undertaken to update all of the information in this Quarterly Report, but instead has updated only those areas related to the restatements. Please read all of the Company's filings with the Commission in conjunction with this Quarterly Report.

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.

**ITEM 1 Financial Statements****Speedemissions, Inc.****(Accounting and Reporting Successor to SKTF Enterprises, Inc. - see Note 1)****Condensed Consolidated Balance Sheet****September 30, 2004****(Unaudited)****Assets**

Current assets:

|                             |    |                |
|-----------------------------|----|----------------|
| Cash                        | \$ | 76,138         |
| Other current assets        |    | 45,425         |
| <b>Total current assets</b> |    | <b>121,563</b> |

Property and equipment, at cost less accumulated depreciation and amortization

1,037,463

Goodwill 1,902,590

Other assets 48,334

|  |    |           |
|--|----|-----------|
|  | \$ | 3,109,950 |
|--|----|-----------|

**Liabilities and Stockholders' Equity**

Current liabilities:

|   |    |                  |
|---|----|------------------|
| Debt payable to related parties                     | \$ | 383,334          |
| Accrued interest on debt payable to related parties |    | 101,894          |
| Current portion of capitalized lease obligation     |    | 56,715           |
| Accounts payable and accrued liabilities            |    | 576,798          |
| <b>Total current liabilities</b>                    |    | <b>1,118,741</b> |

Capitalized lease obligation, less current portion 34,097

Commitments and contingencies

Stockholders' equity:

|   |    |                  |
|---|----|------------------|
| Preferred stock, \$.001 par value, 5,000,000 shares authorized, 2,500 shares issued and outstanding     |    | 3                |
| Common stock, \$.001 par value, 100,000,000 shares authorized, 24,139,094 shares issued and outstanding |    | 24,139           |
| Additional paid-in capital  |    | 8,376,206        |
| Accumulated deficit   |    | (6,443,236)      |
| <b>Total stockholders' equity</b>   |    | <b>1,957,112</b> |
|   | \$ | 3,109,950        |

*See accompanying notes to condensed consolidated financial statements.*

**Speedemissions, Inc.**  
**(Accounting and Reporting Successor to SKTF Enterprises, Inc. - see Note 1)**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

|   | Three Months Ended<br>September 30 |              | Nine Months Ended<br>September 30 |              |
|---|------------------------------------|--------------|-----------------------------------|--------------|
|   | 2004                               | 2003         | 2004                              | 2003         |
| Revenue   | \$ 758,008                         | \$ 146,715   | \$ 2,122,138                      | \$ 467,735   |
| Costs and expenses:                                       |                                    |              |                                   |              |
| Cost of emissions certificates                            | 233,681                            | 43,581       | 649,432                           | 130,380      |
| General and administrative expenses                       | 970,855                            | 490,962      | 3,955,626                         | 1,181,133    |
| Loss from operations                                      | (446,528)                          | (387,828)    | (2,482,920)                       | (843,778)    |
| Interest expense  | 13,793                             | 39,796       | 49,633                            | 103,670      |
| Loss before income tax benefit                            | (460,321)                          | (427,624)    | (2,532,553)                       | (947,448)    |
| Income tax benefit  | -                                  | -            | -                                 | -            |
| Net loss  | \$ (460,321)                       | \$ (427,624) | \$ (2,562,553)                    | \$ (947,448) |
| Basic and diluted net loss per share                      | \$ (0.02)                          | \$ (0.04)    | \$ (0.12)                         | \$ (0.11)    |
| Weighted average shares<br>outstanding, basic and diluted | 23,282,096                         | 10,000,000   | 21,048,228                        | 8,252,224    |

*See accompanying notes to condensed consolidated financial statements*

**Speedemissions, Inc.****(Accounting and Reporting Successor to SKTF Enterprises, Inc. - see Note 1)****Condensed Consolidated Statements of Cash****Flows****For the Nine Months Ended September 30, 2004 and 2003****(Unaudited)**

|   | <b>2004</b>    | <b>2003</b>  |
|---|----------------|--------------|
| Cash flows from operating activities:                                       |                |              |
| Net loss  | \$ (2,532,553) | \$ (947,448) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                |              |
| Depreciation and amortization   | 174,231        | 119,344      |
| Stock expense incurred in payment of promissory notes                       | 489,812        | -            |
| Stock expense incurred in business acquisition                              | 559,514        | -            |
| Stock issued for services   | 291,431        | -            |
| Stock option expenses   | 31,070         | -            |
| Acquisition fee   | -              | 125,000      |
| Changes in assets and liabilities:  |                |              |
| Other current assets  | 65,664         | 4,937        |
| Other assets  | (37,009)       | (5,226)      |
| Accrued interest on debt payable to related parties                         | 38,510         | 102,586      |
| Accounts payable and accrued liabilities                                    | 319,298        | 158,880      |
| Net cash used in operating activities                                       | (600,032)      | (441,927)    |
| Cash flows from investing activities:                                       |                |              |
| Acquisition of businesses   | (2,376,015)    | -            |
| Net purchases of property and equipment                                     | (148,861)      | (33,747)     |
| Net cash used in investing activities                                       | (2,524,876)    | (33,747)     |
| Cash flows from financing activities:                                       |                |              |
| Proceeds from issuance of convertible preferred stock                       |                |              |
| to related party  | 2,500,000      | -            |
| Proceeds from issuance of convertible debt to related party                 |                |              |
|   | -              | 400,000      |
| Proceeds from issuance of common stock and warrants                         |                |              |
|   | 987,550        | -            |
| Proceeds from promissory note payable to related party                      |                |              |
|   | 50,000         | -            |
| Payments on promissory notes  | (41,666)       | -            |
| Payments on capitalized leases  | (38,069)       | -            |
| Financing costs   | (266,000)      | (30,000)     |
| Net cash provided by financing activities                                   | 3,191,815      | 370,000      |
| Net increase (decrease) in cash   | 66,907         | (105,674)    |
| Cash at beginning of period   | 9,231          | 136,806      |
| Cash at end of period   | \$ 76,138      | \$ 31,132    |

**Supplemental Disclosure of Cash Flow Information**

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|  |    |   |    |   |
|--|----|---|----|---|
| Cash paid during the period for interest | \$ | - | \$ | - |
| Cash paid during the period for taxes    | \$ | - | \$ | - |

In the nine months ended September 30, 2004, \$540,000 of promissory notes plus accrued interest of approximately \$64,000 was converted into 2,024,996 shares of Speedemissions, Inc. common stock.

*See accompanying notes to condensed consolidated financial statements*



**Speedemissions, Inc.**  
**(Accounting and Reporting Successor to SKTF Enterprises, Inc.)**  
**Notes to Condensed Consolidated Financial Statements**

**September 30, 2004**  
**(Unaudited)**

**Note 1: Basis of Presentation**

Emissions Testing, Inc. (Emissions Testing) was incorporated on May 5, 2000 under the laws of the state of Georgia for the primary business purpose of opening, acquiring, developing and operating vehicle emission testing stations. On June 1, 2000, Emissions Testing entered into an agreement with GCA Strategic Investment Fund Limited (GCA Fund), pursuant to which GCA Fund agreed to purchase certain convertible debentures of Emissions Testing. On January 31, 2001, GCA Fund elected to immediately convert all outstanding convertible debentures plus outstanding accrued interest into 3,553,137 shares of Emissions Testing common stock. As of March 19, 2002, GCA Fund owned approximately 85% of the outstanding common stock of Emissions Testing.

In March 2001, the president of Emissions Testing formed, and was the sole stockholder in, SE Testing, Inc. (SE Testing) (initially known as Speedemissions, Inc.) to acquire a building and lease such building to Emissions Testing to house an emission testing station. Funds utilized to acquire the building were obtained from GCA Fund in the form of a promissory note payable (see Note 5). SE Testing subsequently formed Speedemissions, LLC, a dormant subsidiary.

Effective as of March 19, 2002, Emissions Testing, SE Testing and Speedemissions, LLC merged, with SE Testing the surviving entity; SE Testing then changed its name to Speedemissions, Inc. Subsequent to the merger, GCA Fund owned 86% of the outstanding common stock of Speedemissions, Inc., the president of Speedemissions, Inc. (who was the president of Emissions Testing) owned 7% of the outstanding common stock and two other stockholders in Emissions Testing each owned 3.5% of the outstanding common stock.

Since GCA Fund had the controlling ownership interest in the pre merger Emissions Testing and also had the controlling ownership interest in the post merger Speedemissions, Inc., there was no change in the control group. This fact, together with the nature of the relationship between GCA Fund, SE Testing and Speedemissions, LLC and the involvement of the president of SE Testing with Emissions Testing, indicated that the merger should be accounted for at historical cost, using the carryover basis of accounting, in a manner similar to a pooling of interests. Accordingly, the accounts of Emissions Testing, SE Testing and Speedemissions, LLC were combined as of and from January 1, 2001 as if the merger had occurred on that date.

Effective as of June 16, 2003, Speedemissions, Inc. (Speedemissions or the Company) entered into an acquisition agreement with SKTF Enterprises, Inc. (SKTF). Pursuant to the acquisition agreement, SKTF acquired all of the outstanding common stock of Speedemissions in exchange for 9,000,000 shares of SKTF common stock, which were issued to the stockholders of Speedemissions. Accordingly, Speedemissions became a wholly owned subsidiary of SKTF. Subsequent to the acquisition, GCA Fund owned 78% of the 10,000,000 shares of outstanding common stock of SKTF, the president of Speedemissions owned 6%, the other stockholders of Speedemissions owned 6% and the existing stockholders of SKTF owned 10% (see Note 6).

SKTF was a development stage company that had not begun operations, thus SKTF had no revenues. SKTF had a minimal amount of assets and liabilities. For accounting purposes, Speedemissions was viewed as the acquiring entity and had accounted for the transaction as a reverse acquisition. The SEC staff's accounting and reporting guidance indicates that the merger of a private operating company into a nonoperating public shell corporation with nominal net assets is in substance a capital transaction rather than a business combination. That is, the transaction is equivalent to the private company issuing common stock for the net monetary assets of the shell corporation, accompanied by a recapitalization.

The accumulated deficit of Speedemissions has been carried forward after the acquisition. Results of operations subsequent to the date of acquisition reflect the combined results of operations of Speedemissions and SKTF. Operations for periods prior to the acquisition are those of Speedemissions. Assets and liabilities of Speedemissions and SKTF were combined at their historical cost carrying amounts at the date of acquisition.

In connection with the acquisition, Speedemissions agreed to pay an acquisition fee of \$225,000 to V2R, LLC (V2R), an entity controlled by an existing minority stockholder of SKTF. Such amount is included in general and administrative expenses in the 2003 consolidated statement of operations. Of this amount, \$100,000 was paid in cash at the closing of the acquisition, with the balance due pursuant to the terms of a promissory note (see Note 5). Additionally, Speedemissions agreed to issue a warrant (see Note 6) to V2R to purchase 130,000 shares of Speedemissions common stock at an exercise price of \$.01 per share (see Note 6) and entered into a consulting agreement with V2R that, among other things, provides for a monthly consulting fee and provides for a transaction fee generally equal to 5% of the gross transaction amount of an equity transaction, as defined in the agreement. During the quarter ended March 31, 2004, this agreement was cancelled and replaced by a new agreement (see Note 8).

For SEC reporting purposes, Speedemissions is treated as the continuing reporting entity that acquired a registrant, that is, as if Speedemissions were the legal successor to SKTF's SEC reporting obligations as of the date of the acquisition.

Effective on September 5, 2003, SKTF Enterprises, Inc. changed its name to Speedemissions, Inc. For ease of reference, these notes and the accompanying condensed consolidated financial statements continue to refer to "SKTF" and "Speedemissions" in the context of their legal names prior to the September 5, 2003 name change.

SKTF's common stock is registered with the Securities and Exchange Commission (SEC) and is presently listed for trading on the over the counter bulletin board under the symbol "SPEM"; previously "SKTE".

On January 21, 2004, the Company completed a private placement of 2,500 shares of its Series A Convertible Preferred Stock (the Preferred Stock) and 2,500,000 common stock purchase warrants (the Warrants) to GCA Strategic Investment Fund Limited, an existing affiliate shareholder of the Company, in exchange for gross proceeds to the Company of \$2,500,000. Net proceeds to the Company after the payment of an advisors fee and offering expenses was \$2,234,000.

On January 21, 2004, the Company completed the acquisition of all of the assets of the business known and operated as Procama Emissions and Georgia Emissions (the Acquired Assets). The Acquired Assets constitute all of the business assets of five emissions testing stations in the Atlanta, Georgia area, which the Company intends to continue to operate under the Speedemissions name.

In exchange for the Acquired Assets, the Company paid the purchase price of \$1,250,000 in cash (the Purchase Price) to the sellers, NRH Enterprises, Inc. and Holbrook Texaco, Inc. (each a Seller and collectively the Sellers). The Sellers are unrelated parties to the Company and its affiliates. The Purchase Price was paid in cash by the Company using funds raised in its private placement of \$2,500,000.

On January 30, 2004, the Company completed the acquisition of all of the assets of the businesses known and operated as \$20 Emission (the \$20 Acquired Assets). The \$20 Acquired Assets constitute all of the business assets of seven emissions testing stations in the Atlanta, Georgia area, which the Company intends to continue to operate under the Speedemissions name.

In exchange for the \$20 Acquired Assets, the Company paid the purchase price of \$1,001,000 in cash (the Cash Purchase Amount) and issued an aggregate of 956,318 shares of Company common stock (the Stock Purchase Shares and, together with the Cash Purchase Amount, the Purchase Price) to the sellers, Twenty Dollar Emission, Inc. and Kenneth Cameron (each a Seller and collectively the Sellers), and the Sellers' designee. The Cash Purchase Amount and 622,985 of the Stock Purchase Shares were paid to the Sellers' lender, Global Capital Funding Group, LP (Global), who is an affiliate of the Company and Kenneth Cameron is a former employee of the Company, whose services were retained by the Company after the purchase of \$20 Emission. The Cash Purchase Amount was paid in cash by the Company using funds raised in its private placement of \$2,500,000.

On June 16, 2004, the Company completed the acquisition of all of the assets of the business known and operated as BB&S Emissions, LLC (the BB&S Acquired Assets). The Company paid the purchase price of \$125,015 in cash and assumed \$4,716 in capitalized lease obligation. The BB&S Acquired Assets constitute all of the business assets of an emissions testing station in the Atlanta, Georgia area, which the Company intends to continue to operate under the Speedemissions name.

As a result of the acquisitions mentioned above, plus the opening of two new stations and the closing of an existing station, the Company increased its number of emissions testing stations from five, as of December 31, 2003, to nineteen, as of June 30, 2004. The number of open stations remained at nineteen as of the quarter ended September 30, 2004.

## **Note 2: Nature of Operations and Summary of Significant Accounting Policies**

### **Nature of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Speedemissions and SKTF as discussed in Note 1. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying condensed 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 condensed 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, 2004 and for all periods presented. The results of operations presented in the accompanying condensed consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any future period.

The accompanying condensed 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 condensed consolidated financial statements should be read in conjunction with SKTF's 2002 and 2001 financial statements and notes thereto included in SKTF's annual report on Form 10-KSB for the year ended December 31, 2002 and Speedemissions' 2003 and 2002 financial statements and notes thereto included in Speedemission's annual report on Form 10-KSB for the year ended December 31, 2003.

### **Nature of Operations**

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

As of September 30, 2004, the Company operated nineteen emissions testing stations, including sixteen stations in the metropolitan Atlanta, Georgia area and three stations in the metropolitan Houston, Texas area. The Company does business under the trade name *Speedemissions*. At its emissions testing stations, the Company uses computerized emissions testing equipment that tests vehicles for compliance with emissions standards; in the emissions testing 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. Actual results could differ from those estimates.

### **Revenue Recognition**

Revenue is recognized as the testing services are performed. Under current state of Georgia law, the charge for an emission test is limited to \$25.00 per vehicle, which is recorded by the Company as gross revenue. The cost of emissions certificates due to the state is approximately \$6.95 per certificate and is shown separately in the accompanying condensed consolidated statements of operations. Under current state of Texas law, the charge for an emission test is generally limited to \$39.50 per vehicle, which is recorded by the Company as gross revenue. The cost of emissions certificates due to the state varies between approximately \$5.50 and \$14.00 per certificate depending on the type of test and is shown separately in the accompanying condensed consolidated statements of operations. In some cases, in response to competitive situations, the Company has charged less than the statutory maximum revenue charges allowed.

The Company generally 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 and Texas 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. At the time of initial testing, the Company provides an allowance for potential retest costs, based on prior retest experience and information furnished by the states of Georgia and Texas, which is comprised mainly of the labor cost associated with performing a retest. When a retest is performed, the incremental cost of performing a retest is applied against the retest allowance. At September 30, 2004, the allowance for retest costs was insignificant.

In December 1999, the SEC staff released Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB 101), as amended. SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. In December 2003, the SEC staff released Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104), which revises portions of SAB 101. The Company believes its revenue recognition policies comply with SAB 101 and SAB 104.

### **Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts payable and accrued liabilities approximate fair value because of the short-term nature of these accounts. Management believes the carrying amounts of its debt payable to related parties and capital lease obligation approximate fair value, as it believes the Company would have to pay the same or similar interest rates to obtain similar debt instruments.

### **Accounting for Business Combinations**

Statement of Financial Accounting Standards No 141, *Business Combinations* (SFAS 141), prescribes the accounting for all business combinations by, among other things, requiring the use of the purchase method of accounting. SFAS 141 was effective for the Company for business combinations consummated after June 30, 2001.

### **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 and intangible assets. In accordance with SFAS 142, goodwill and certain intangible assets deemed to have an indefinite useful life are not amortized but tested for impairment upon adoption of SFAS 142 (January 1, 2002 for the Company) and annually thereafter and whenever an impairment indicator arises.

Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of the specific reporting unit of the Company, as defined, to which the goodwill is attributable and a comparison of such fair value to the carrying amount of the reporting unit, including goodwill. If the carrying amount exceeds fair value, the second step is performed to measure the amount of the impairment loss, which equals the amount by which the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill (the implied fair value of goodwill represents the excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit). In the opinion of management, goodwill was not impaired as of September 30, 2004.

## Net Loss Per Share

The net loss per share computations for 2004 and 2003 reflect the weighted average shares of outstanding common stock (see Note 6).

Basic net loss per share is computed by dividing the net loss for the period by the weighted-average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of common and potential common shares outstanding during the period, if the effect of the potential common shares is dilutive. As a result of the Company's net losses, all potentially dilutive securities would be antidilutive and are excluded from the computation of diluted loss per share.

The following table lists the number of shares of common stock, which could be issued related to all potentially dilutive securities as of September 30, 2004:

|                             |           |
|-----------------------------|-----------|
| Convertible preferred stock | 2,500,000 |
| Warrants                    | 5,285,072 |
| Options                     | 560,000   |
|                             | 8,345,072 |

## Regulatory Impact

The current and future demand for the Company's services is substantially dependent upon federal, state, local and foreign legislation and regulations mandating air pollution controls and emissions testing. If any or all of these governmental agencies should change their positions or eliminate or revise their requirements related to air pollution controls and emissions testing (including a shift to centralized facilities versus decentralized facilities), the Company could experience a significant adverse impact on its consolidated financial position and results of operations.

## Accounting for Stock-Based Compensation

The Company applies Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations in accounting for stock options. The Company has adopted only the disclosure provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, in accounting for stock options and does not recognize compensation expense under the fair value provisions of SFAS 123.

The Company applies APB Opinion 25 and related interpretations in accounting for its stock options. Stock-based employee compensation cost has been reflected in net loss in the accompanying condensed consolidated statements of operations, for the 400,000 options classified as variable stock options granted had an exercise price less than the market value of the underlying common stock on the date of grant (see Note 10). At the end of each calendar quarter, the Company determines a value for the financial effect of the variable stock options. This value is calculated as the number of variable stock options times the difference between the closing bid price and the exercise price of the variable stock options. The financial effect will continue to be recorded by the Company until the options are exercised, cancelled, or expire. The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

|   | <b>Nine Months Ended September 30,</b> |              |
|---|--|--------------|
|   | <b>2004</b>                            | <b>2003</b>  |
| Net loss, as reported   | \$ (2,532,553)                         | \$ (947,448) |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 18,642                                 | -            |
| Pro forma net loss  | \$ (2,551,195)                         | \$ (947,448) |
| Loss per share:   |  |              |
| Basic and diluted - as reported   | \$ (0.12)                              | \$ (0.11)    |
| Basic and diluted - pro forma   | \$ (0.12)                              | \$ (0.11)    |

The fair value of the options has been determined using the Black-Sholes option-pricing model with the following assumptions: risk-free interest rates of 5.00%; expected lives of 3 years; expected volatility of 3.50%; and no dividend yield.

### **Recently Issued Accounting Standard**

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46) which was revised in December 2003. FIN 46 addresses consolidation by business enterprises of variable interest entities, as defined in FIN 46; it applies to interest in special-purpose entities for periods ending after December 15, 2003. For interests in entities other than special-purpose entities, FIN 46 is applicable at various dates through 2004 and 2005. The Company does not expect FIN 46 to have a significant impact on its consolidated financial statements.

### **Note 3: Factors Affecting Operations**

The Company is a start-up enterprise with limited operations and has not generated significant amounts of revenue. The Company incurred a net loss of \$2,532,553 in the nine month period ended September 30, 2004 and had a deficit in working capital of \$997,178 at September 30, 2004. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The future success of the Company is contingent upon, among other things, the ability to: achieve and maintain satisfactory levels of profitable operations; obtain and maintain adequate levels of debt and/or equity financing; and provide sufficient cash from operations to meet current and future obligations.

The Company has prepared financial forecasts which indicate that, based on its current business plans and strategies, it anticipates that it will achieve profitable operations and generate positive cash flows in the next few years. However, the ultimate ability of the Company to achieve these forecasts and to meet the objectives discussed in the preceding paragraph cannot be determined at this time. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**Note 4: Goodwill**

Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of the specific reporting unit of the Company, as defined, to which the goodwill is attributable and a comparison of such fair value to the carrying amount of the reporting unit, including goodwill. If the carrying amount exceeds fair value, the second step is performed to measure the amount of the impairment loss, which equals the amount by which the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill (the implied fair value of goodwill represents the excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit). In the opinion of management, goodwill was not impaired as of September 30, 2004.

**Note 5: Debt Payable to Related Parties**

Debt payable to related parties of Speedemissions at September 30, 2004 was as follows:

|  |            |
|--|------------|
| \$300,000 promissory note payable to GCA Fund; interest payable quarterly at 10%; principal payable in single installment at maturity date of October 24, 2005 (see below); secured by certain assets of the Company   | \$ 300,000 |
| \$125,000 promissory note payable to V2R; interest (10% annually starting January 1, 2004) (face amount of note approximated the discounted amount at date of issuance) and principal payable in three installments at maturity dates of January 1, April 1 and June 1, 2004 (see below); secured by substantially all assets of the Company; subordinated to the security interests of GCA Fund | 83,334     |
|  | 383,334    |
| Less current portion   | (383,334)  |
|  | \$ -       |

Principal maturities on debt at September 30, 2004 were as follows:

|      |            |
|------|------------|
| 2004 | \$ 383,334 |
|      | \$ 383,334 |



The \$300,000 promissory note payable is mandatorily redeemable, at the option of GCA Fund, under certain circumstances as outlined in the note payable agreements, including but not limited to a change in control, as defined.

The \$300,000 promissory note payable had an original maturity date of August 2, 2003 but was not repaid on that date. Effective as of September 2, 2003, the Company and GCA Fund agreed to extend the maturity date to April 24, 2004. Effective as of May 5, 2004, the Company and GCA Fund agreed to extend the maturity date to October 24, 2004. Effective as of October 15, 2004, the Company and GCA Fund agreed to extend the maturity date to October 24, 2005.

On June 13, 2003, our subsidiary entered into a consulting agreement with V2R, Inc., which is controlled by Bahram Yusefzadeh, who subsequent to June 13, 2003 became one of our directors. Under the terms of the agreement, our subsidiary agreed to pay to V2R, upon the successful closing of a merger or acquisition of our subsidiary with a publicly traded corporation, the sum of \$225,000. Of this amount, \$125,000 was to be paid in accordance with the terms of a promissory note. The principal balance of the note was due on December 31, 2003, but was extended pursuant to an amendment dated December 30, 2003 to the earlier to occur of (i) the closing of a round of equity or debt financing in excess of \$1,500,000, (ii) 90 days after the effectiveness of a registration statement, or (iii) in three equal installments beginning March 1, 2004, May 1, 2004, and July 1, 2004. The entire principal and interest became due on January 21, 2004 when we closed a round of equity financing in excess of \$1,500,000; however, as of the date hereof we have only made one payment of \$41,666, leaving an unpaid balance of principal and interest of \$90,317 as of September 30, 2004.

As of December 31, 2003, the Company had a \$225,000 promissory note payable to GCA Fund with terms of: interest payable quarterly at 10%, principal payable in a single installment at maturity date of April 24, 2004 and secured by certain assets of the Company. On January 18, 2004, the Company and GCA Fund agreed to convert the principal amount of the \$225,000 promissory note and accrued interest amount of approximately \$55,000 outstanding into 1,100,000 shares of the Company's common stock representing an exchange rate of \$0.25 per common share. As a result of the conversion, the Company recorded an expense of approximately \$231,000 during the quarter ended March 31, 2004. The expense was recorded as a result of the difference between the \$0.25 per share conversion price and the closing bid price for the Company's common stock on the date of the conversion agreement.

The president and chief executive officer of the Company had advanced the Company \$315,000 on several unsecured promissory notes. The notes were due and payable in 180 days, from their respective date of issuance, and carried interest at 5%. On June 16, 2004, the Company and its president and chief executive officer agreed to convert the principal amount of the \$315,000 promissory note and accrued interest amount of approximately \$8,700 outstanding into 924,996 shares of the Company's common stock representing an exchange rate of \$0.35 per common share. As a result of the conversion, the Company recorded an expense of approximately \$231,000 during the quarter ended June 30, 2004. The expense was recorded as a result of the difference between the \$0.35 per share conversion price and the closing bid price for the Company's common stock on the date of the conversion agreement.

## **Note 6: Equity**

### **SKTF**

#### **Preferred Stock**

SKTF is authorized to issue 5,000,000 shares of \$.001 par value preferred stock. On January 21, 2004, the Company completed a private placement of 2,500 shares of its Series A Convertible Preferred Stock (the Preferred Stock) and 2,500,000 common stock purchase warrants (the Warrants) to GCA Strategic Investment Fund Limited, an existing affiliate shareholder of the Company, in exchange for gross proceeds to the Company of \$2,500,000. Net proceeds to the Company after the payment of an advisors fee and offering expenses was \$2,234,000.

The Preferred Stock pays a dividend of 7% per annum, and each share of Preferred Stock is convertible into 1,000 shares of the Company's common stock, or 2,500,000 shares of common stock in the aggregate. The Warrants are exercisable for a period of five years at an exercise price of \$1.25 per share of common stock to be acquired upon exercise.

#### **Common Stock**

SKTF is authorized to issue 100,000,000 shares of \$.001 par value common stock, of which 24,139,094 shares were issued and outstanding as of September 30, 2004. As of June 30, 2003, SKTF had 6,044,750 shares of common stock issued and outstanding, as reported in its quarterly report on Form 10-QSB for the quarter ended March 31, 2003. Effective as of June 16, 2003, the closing date of the reverse acquisition (see Note 1), SKTF redeemed 5,044,750 shares at a cost of approximately \$500 and issued 9,000,000 shares of common stock to the stockholders of Speedemissions (see Note 1). As a result, SKTF had 10,000,000 shares of common stock issued and outstanding as of June 16, 2003.

In 2003, SKTF issued stock in exchange for legal and consulting services rendered in the form of 600,000 shares of common stock. Of such amount, 300,000 shares were issued to The Lebrecht Group, APLC, an existing minority stockholder, and 300,000 shares were issued to designees of V2R. The shares were issued at no cost to the recipients and the Company recognized approximately \$120,000 in general and administrative expense related to the issuance.

On December 18, 2003, the combined principal amount of \$1,450,000 and accrued interest amount of approximately \$135,000 outstanding under convertible debenture agreements, with a related party, were converted into 5,670,619 shares of the Company's common stock at an exchange rate of \$0.28 per common share.

On January 7, 2004, the Company issued 180,000 shares of its common stock under the terms of its consulting agreement with a public relations firm (see note 8).

On January 18, 2004, the Company and GCA Fund agreed to convert the principal amount of the \$225,000 promissory note (see Note 5) and accrued interest amount of approximately \$55,000 outstanding into 1,100,000 shares of the Company's common stock at an exchange rate of \$0.25 per common share. As a result of the conversion, the Company recorded an expense of approximately \$259,000 during the quarter ended March 31, 2004. The expense was recorded as a result of the difference between the \$0.25 per share conversion price and the closing bid price for the Company's common stock on the date of the conversion agreement.

On January 21, 2004, the Company completed a private placement of 2,500 shares of its Series A Convertible Preferred Stock (the Preferred Stock) and 2,500,000 common stock purchase warrants (the Warrants) to GCA Strategic Investment Fund Limited, an existing affiliate shareholder of the Company, in exchange for gross proceeds to the Company of \$2,500,000. Net proceeds to the Company after the payment of an advisors fee and offering expenses was \$2,234,000.

The Preferred Stock pays a dividend of 7% per annum, and each share of Preferred Stock is convertible into 1,000 shares of the Company's common stock, or 2,500,000 shares of common stock in the aggregate. The Warrants are exercisable for a period of five years at an exercise price of \$1.25 per share of common stock to be acquired upon exercise. The Company did not assign a value to the warrants upon issuance as the value was deemed immaterial.

On January 30, 2004, the Company completed the acquisition of all of the assets of the businesses known and operated as \$20 Emission (the \$20 Acquired Assets). The \$20 Acquired Assets constitute all of the business assets of seven emissions testing stations in the Atlanta, Georgia area, which the Company intends to continue to operate under the Speedemissions name.

In exchange for the \$20 Acquired Assets, the Company paid the purchase price of \$1,001,000 in cash (the Cash Purchase Amount) and issued an aggregate of 956,318 shares of Company common stock (the Stock Purchase Shares and, together with the Cash Purchase Amount, the Purchase Price) to the sellers, Twenty Dollar Emission, Inc. and Kenneth Cameron (each a Seller and collectively the Sellers), and the Sellers designee. The Cash Purchase Amount and 622,985 of the Stock Purchase Shares were paid to the Sellers' lender, Global Capital Funding Group, LP (Global), who is an affiliate of the Company and Kenneth Cameron is a former employee of the Company, whose services were retained by the Company after the purchase of \$20 Emission. The Cash Purchase Amount was paid in cash by the Company using funds raised in its private placement of \$2,500,000.

On February 18, 2004, in accordance with authorization by the board of directors on January 21, 2004, the Company issued 900,000 warrants to purchase shares of the Company's common stock to its president. Each warrant entitles the president to purchase one share of common stock. The exercise price for 450,000 of the warrants is \$0.75, with the remaining 450,000 having an exercise price of \$1.05. Each of the two separately priced warrant issues expire on February 17, 2009 and each vest 150,000 warrants as immediately exercisable with the remaining 300,000 vesting in two equal parts of 150,000 warrants on January 1, 2005 and January 1, 2006. The Company did not assign a value to the warrants upon issuance as the value was deemed immaterial.

On February 25, 2004, the Company issued 50,000 shares of its common stock in payment of legal services rendered.

On March 9, 2004, the Company issued 180,000 shares of its common stock under the terms of its consulting agreement with a public relations firm (see note 8).

During the quarter ended March 31, 2004, the Company sold to qualified investors 855,000 security units. Each security unit consisted of two shares of the Company's common stock and a warrant to purchase a share of the Company's common stock at the closing bid price for the Company's common stock on the subscription date. The Company received \$.50 for each unit subscribed. The Company received subscriptions for 855,000 units, which represents \$427,500 in proceeds to the Company, less consulting fees of approximately \$21,000. All amounts subscribed were collected by the Company as of March 31, 2004. Upon completion of these subscriptions the Company issued a total of 1,710,000 shares of its common stock and 855,000 warrants. The Company does not anticipate receiving more subscriptions and considers this offering closed. The Company did not assign a value to the warrants upon issuance as the value was deemed immaterial.

On May 7, 2004, the Company issued 90,000 shares of its common stock under the terms of its consulting agreement with a public relations firm (see note 8).

On May 24, 2004, the Company issued 100,000 shares of its common stock under the terms of its consulting agreement with a financial consulting firm (see note 8).

As of March 31, 2004, the president and chief executive officer of the Company had advanced the Company \$315,000 on several unsecured promissory notes. The notes were due and payable in 180 days, from their respective date of issuance, and carried interest at 5%. On June 16, 2004, the Company and its president and chief executive officer agreed to convert the principal amount of the \$315,000 promissory note and accrued interest amount of approximately \$8,700 outstanding into 924,996 shares of the Company's common stock representing an exchange rate of \$0.35 per common share. As a result of the conversion, the Company recorded an expense of approximately \$231,000 during the quarter ended June 30, 2004. The expense was recorded as a result of the difference between the \$0.35 per share conversion price and the closing bid price for the Company's common stock on the date of the conversion agreement.

During the quarter ended June 30, 2004, the Company sold to qualified investors 814,286 security units. Each security unit consisted of one share of the Company's common stock and a warrant to purchase a share of the Company's common stock at \$.75 per warrant for every two common shares purchased. The Company received \$.35 for each common share sold, which represents \$285,000 in proceeds to the Company during the quarter ended June 30, 2004. Upon completion of these subscriptions the Company issued a total of 814,286 shares of its common stock and 407,143 warrants. The Company sold, under the terms described above, an additional 142,858 security units during July 2004, receiving proceeds of approximately \$50,000. The Company did not assign a value to the warrants upon issuance, as the value was deemed immaterial. The Company anticipates receiving more subscriptions and considers this offering open as of the date of filing of this report on form 10-QSB.

On August 24, 2004, the Company issued 80,000 shares of its common stock under the terms of its consulting agreement with a financial consulting firm (see note 8).

On August 24, 2004, the Company issued 42,017 shares of its common stock in payment of legal services.

On August 24, 2004, the Company issued 855,000 shares of common stock, restricted in accordance with Rule 14, to thirteen (13) existing accredited investors in a private placement exempt from registration pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as consideration under anti-dilution provisions of their securities purchase agreements.

During the quarter ended September 30, 2004, the Company sold to qualified investors 785,858 security units. Each security unit consisted of one share of the Company's common stock and a warrant to purchase a share of the Company's common stock at \$.75 per warrant for every two common shares purchased. The Company received \$.35 for each common share sold, which represents approximately \$275,000 in proceeds to the Company during the quarter ended September 30, 2004. Upon completion of these subscriptions the Company issued a total of 785,858 shares of its common stock and 392,929 warrants. The Company did not assign a value to the warrants upon issuance, as the value was deemed immaterial. The Company does not anticipate receiving any more subscriptions and considers this offering closed as of September 30, 2004.

Speedemissions

**Preferred Stock**

Speedemissions is authorized to issue 10,000,000 shares of \$0.01 par value preferred stock. No terms or conditions have been established for any preferred stock, which may be established and the stock issued by the Board of Directors without further shareholder approval.

**Common Stock**

Speedemissions is authorized to issue 40,000,000 shares of \$0.01 par value common stock, of which 7,142,857 shares were issued and outstanding as of September 30, 2004. All such shares are held by SKTF.

**Warrant**

As discussed in Note 1, in connection with the acquisition of Speedemissions by SKTF, Speedemissions issued a warrant to V2R. The warrant entitles V2R to purchase 130,000 shares of Speedemissions common stock at an exercise price of \$.01 per share. Speedemissions did not assign a value to the warrant upon issuance as the value was deemed immaterial.

Of the total shares subject to the warrant, 25,000 shares were exercisable upon execution of the agreement effective June 16, 2003. The remaining shares are exercisable based on the achievement of certain milestones by V2R in raising additional equity capital for Speedemissions. As of September 30, 2004, 25,000 shares were exercisable and no shares had been exercised under the warrant.

The warrant has a net exercise provision and contains, among other things, antidilution provisions and registration rights. Additionally, if Speedemissions has not closed on an initial public offering by February 11, 2006, Speedemissions is required to redeem the warrant at a price equal to \$1.50 times the number of exercisable shares. On October 9, 2003, Speedemissions and V2R amended the warrant to provide for the exercise of the warrant in exchange for shares of SKTF common stock; the terms of such exercise are identical to the previous exercise terms.

**Note 7: Income Taxes**

As of December 31, 2003, Speedemissions had net operating loss (NOL) carryforwards of approximately \$3,175,000 that may be used to offset future taxable income. The NOL carryforwards will expire at various dates through 2023.

As a result of the NOL carryforwards, the Company has recorded no provision or benefit for income taxes in the accompanying condensed consolidated financial statements. A valuation allowance has been recorded to offset the recognition of any deferred tax assets due to the uncertainty of future realization.

**Note 8: Commitments**

As discussed in Note 1, in connection with the acquisition of Speedemissions by SKTF, Speedemissions entered into a consulting agreement with V2R. Speedemissions also has a note payable to V2R (see Note 5) and has issued a warrant to V2R (see Note 6).

Pursuant to the consulting agreement, Speedemissions agreed to pay V2R a consulting fee of \$8,334 per month, effective June 1, 2003. Additionally, Speedemissions agreed to pay V2R a transaction fee generally equal to 5% of the gross transaction amount of an equity transaction, as defined in the agreement. The agreement has a thirty-six month term, which term relies on the ability of Speedemissions to raise additional capital, and will automatically renew for successive twelve-month periods unless terminated by either party. If Speedemissions terminates the agreement, it will nevertheless be subject to a minimum consulting fee of \$150,000.

Effective January 1, 2004, the consulting agreement was cancelled and replaced, by mutual agreement of the Company and V2R, with a new agreement. The new agreement continues for 30 months at a consulting fee of \$8,334 per month. The new agreement grants V2R warrants to purchase 100,000 shares of the Company's common stock at \$0.25 per share. The warrants vest in two increments of 50,000 on January 1, 2005 and 2006, respectively. The Company plans to recognize consulting services expense associated with the warrants in accordance with SFAS 123. Additionally, V2R can earn success fees calculated using the Lehman Formula, as defined, for merger and acquisition and strategic alliance or partnership agreements arranged by the entity. The Lehman Formula calculation assigns, respectively, 5%, 4%, 3% and 2% fees to the first and each succeeding \$1,000,000 increment of transaction value. Any transaction value greater than \$4,000,000 uses 1% for purposes of fee calculation.

Effective September 15, 2003, the Company entered into a three-year employment agreement with its president and chief executive officer. Under the terms of the agreement, the president will receive a salary of \$180,000 per year, plus an automobile and expense allowance, and will be eligible for quarterly bonuses as set forth in the agreement. In addition, the president was granted options to purchase up to 400,000 shares of SKTF common stock at an exercise price of \$2.00 per share. These options were cancelled and re-issued with an exercise price of \$0.25 per share on December 19, 2003. The agreement may be terminated by the Company for cause, in which case the president would not be entitled to severance compensation, or without cause, in which case the president would be entitled to the balance of his salary due under the agreement, plus other compensation earned through the date of termination.

Effective December 1, 2003, the Company entered into an agreement with a public relations firm to issue stock in exchange for consulting services to be rendered by the public relations firm during the period from December 1, 2003 to May 31, 2004. The Company will issue a total of 450,000 shares of its common stock over the term of this agreement. As of December 31, 2003, no shares had been issued under the agreement. During 2003, the Company recognized \$18,750 in general and administrative expenses related to this agreement. On January 7, 2004, March 9, 2004 and May 7, 2004, the Company issued a total of 450,000 shares of its common stock under the terms of its consulting agreement with a public relations firm (see note 6). During the nine months ended September 30, 2004, the Company recognized approximately \$218,000 in general and administrative expenses related to this agreement.

Effective January 1, 2004, the Company entered into an agreement with a financial consulting firm to issue stock in exchange for consulting services to be rendered by the financial consulting firm during the period from January 1, 2004 to June 30, 2004. The Company issued, on May 24, 2004, a total of 100,000 shares of its common stock, under the terms of this agreement (see note 6). During the nine months ended September 30, 2004, the Company recognized \$93,400 in general and administrative expenses related to this agreement.

#### **Note 9: Contingencies**

The Company is 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 is pending or threatened, or all of them combined, will not have a material adverse effect on its consolidated financial position or results or operations.

#### **Note 10: Stock Options**

SKTF's board of directors and stockholders approved a stock option plan, effective June 1, 2001, pursuant to which 1,000,000 shares of common stock have been reserved for issuance under the plan.

On October 2, 2003 the Company issued options to purchase up to 400,000 shares of SKTF common stock at an exercise price of \$2.00 per share. No stock-based employee compensation cost was recorded related to these options as the options granted had an exercise price greater than the market value of the underlying common stock on the date of grant.

On December 19, 2003, the 400,000 options granted on October 2, 2003, were cancelled and immediately re-issued with an exercise price of \$.25 per share and an expiration date of December 18, 2013. Of the 400,000 options, 100,000 vested immediately with the remaining options vesting in three equal increments on October 1, 2004, 2005 and 2006, respectively. Since the options were cancelled and reissued without allowing a six-month period to elapse, the 400,000 options granted on December 19, 2003 have been reclassified as variable rather than fixed stock options. The accounting treatment for variable stock options requires that compensation expense be calculated at each reporting date based on the change in intrinsic value since the last reporting date. This treatment is required until the options are exercised, forfeited or they expire. In accordance with this requirement the Company recorded \$5,360 in compensation expense during 2003 and \$31,070 during the nine-months ended September 30, 2004.

On December 19, 2003, the Company granted 30,000 options to its directors for services provided with an exercise price of \$.25 per share and an expiration date of December 18, 2013. All of the 30,000 options vested immediately. No stock-based employee compensation cost was recorded in the 2003 consolidated statement of operations related to these options as the options granted had an exercise price equal to the fair value of the underlying common stock on the date of grant.

On January 5, 2004, the Company granted 55,000 stock options to three of its employees. All of the options carried an exercise price of \$.40, vested as of the date of the grant and expire January 4, 2014. No stock-based employee compensation cost has been recorded in the accompanying condensed consolidated statement of operations related to these options as the options granted had an exercise price greater than the fair value of the underlying common stock on the date of grant.

On April 20, 2004, the Company granted 75,000 stock options to two of its employees. All of the options carried an exercise price of \$.515, vested as of the date of the grant and expire April 19, 2014. No stock-based employee compensation cost has been recorded in the accompanying condensed consolidated statement of operations related to these options as the options granted had an exercise price equal to the fair value of the underlying common stock on the date of grant.





## **ITEM 2 Managements Discussion and Analysis**

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors. The following discussion should be read together with our financial statements and the notes to those financial statements included elsewhere in this annual report.

Except for historical information, the materials contained in this Management's Discussion and Analysis 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) and involve a number of risks and uncertainties. These include the Company's historical losses, the need to manage its growth, general economic downturns, intense competition in the emissions testing industry, seasonality of quarterly results, and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. Although forward-looking statements in this Quarterly Report reflect the good faith judgment of management, such statements can only be based on facts and factors currently known by the Company. Consequently, forward-looking statements are inherently subject to risks and uncertainties, actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by the Company in this Quarterly Report, as an attempt to advise interested parties of the risks and factors that may affect the Company's business, financial condition, and results of operations and prospects.

### **Overview**

We currently operate 19 vehicle emissions testing centers in two separate markets, greater Atlanta, Georgia and Houston, Texas. 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.

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 is \$25, and a fee of \$6.95 is paid to the State of Georgia. In Texas, the maximum fee that we can charge is \$39.50, for both an emissions test and a safety inspection, and a blended fee of \$11.00 is paid to the State of Texas.

We want to grow. We have recently completed three acquisitions, which added 13 testing centers. In addition, we opened two and closed one testing center during the quarter ended June 30, 2004. These additions occurred after December 31, 2003, and thus are not included in the financial statements included with this Quarterly Report for periods prior to December 31, 2003. We intend to close more acquisitions, and to continue to open company-owned stations, throughout 2004.

As a result of our growth plans, our biggest challenge will be managing our growth and integrating our acquisitions. We have tried to attract qualified personnel to assist us with this growth, while keeping our overhead expenses manageable. We have not operated at a profit, nor have we operated on a break-even cash flow basis. However, if we are successful in implementing our growth strategy, we believe that both of these financial goals are achievable in the next 12 months. Until that time, we will have to continue to fund our operations, and our acquisitions, with capital raised from selling our stock.

## Results of Operations

### Introduction

Our operations reflect a significantly different company in 2004 versus 2003. At the beginning of 2003, we were a privately held company operating two emissions testing stations in Georgia and three emissions testing stations in Texas. During January 2004, we made two acquisitions, which resulted in the addition of twelve emissions testing stations in Georgia. During June 2004, we made an acquisition of an emissions testing station in Georgia, closed an existing station in Texas and opened new stations in Georgia and Texas. As a result, our operating expenses and revenues during the three and nine months ended September 30, 2004 were significantly greater than the three and nine months ended September 30, 2003.

### Revenues and Loss from Operations

Our revenue, cost of emission certificates, general and administrative expenses, and loss from operations for the quarter ended September 30, 2004 as compared to the quarter ended September 30, 2003 and December 31, 2003 are as follows:

|                                   | Quarter Ended<br>September 30,<br>2004 | Quarter Ended<br>September 30,<br>2003 | Percentage<br>Change | Quarter Ended<br>December 31,<br>2003 |
|-----------------------------------|--|--|----------------------|---------------------------------------|
| Revenue                           | \$ 758,008                             | \$ 146,715                             | 417%                 | \$ 145,213                            |
| Cost of Emission Certificates     | 233,681                                | 43,581                                 | 436%                 | 43,115                                |
| General & Administrative Expenses | 970,855                                | 490,962                                | 98%                  | 600,237                               |
| Loss from Operations              | \$ (446,528)                           | \$ (387,828)                           | 15%                  | \$ (498,139)                          |

Our revenues increased in 2004 because of the thirteen stations we acquired via acquisition during January and June 2004 and the net one new station added in June 2004. For the fourth and third quarters of 2003, our average per-station revenues were approximately \$29,000, compared to approximately \$40,000 for the third quarter of 2004, an increase of approximately \$11,000 per station. Our cost of emission certificates increased in 2004 because of the fourteen stations added, but our cost of emission certificates remained at approximately 30% of revenue for the quarters ended September 30, 2004 and December 31, 2003. Our cost of emission certificates for the quarter ended September 30, 2003 was also approximately 30% of revenue.

Our general and administrative expenses during the quarter ended September 30, 2004 were \$970,855, an increase of \$479,893, or 98% as compared to the quarter ended September 30, 2003. The primary causes of the increased expenses were as follows:

|   |            |
|---|------------|
| Increased wages and rent expense associated with fourteen additional emissions testing stations | \$ 273,332 |
|---|------------|

|   |        |
|---|--------|
| Increased depreciation and maintenance expense associated with fourteen additional emissions testing stations | 61,879 |
|---|--------|

\$ 335,211

Our revenue, cost of emission certificates, general and administrative expenses, and loss from operations for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003 and December 31, 2003 are as follows:

|                                   | Nine Months<br>Ended<br>September 30,<br>2004 | Nine Months<br>Ended<br>September 30,<br>2003 | Percentage<br>Change | Nine Months<br>Ended<br>December 31,<br>2003 |
|-----------------------------------|---|---|----------------------|--|
| Revenue                           | \$ 2,122,138                                  | \$ 467,735                                    | 354%                 | \$ 448,828                                   |
| Cost of Emission Certificates     | 649,432                                       | 130,380                                       | 398%                 | 128,096                                      |
| General & Administrative Expenses | 3,955,626                                     | 1,181,133                                     | 235%                 | 1,549,939                                    |
| Loss from Operations              | \$ (2,482,920)                                | \$ (843,778)                                  | 194%                 | \$ (1,229,207)                               |

Our revenues increased in 2004 because of the thirteen stations we acquired via acquisition during January and June 2004 and the net one new station added in June 2004. For the nine months ended December 31 and September 30 of 2003, our average per-station revenues were, respectively, approximately \$90,000 and \$94,000 compared to approximately \$112,000 for the nine months ended September 30 2004, an increase of, respectively, over \$22,000 and \$18,000 per station. Our cost of emission certificates increased in 2004 because of the fourteen stations added. Our cost of emission certificates was approximately 31% of revenue for the nine months ended September 30, 2004 and approximately 29% for the nine months ended December 31, 2003, or approximately 2% less than for the nine months ended September 30, 2004. Our cost of emission certificates for the nine months ended September 30, 2003 was approximately 28% of revenue, or approximately 3% less than for the nine months ended September 30, 2004. The changes are associated with a higher cost of emissions certificates to revenue for our Texas stations during the nine months ended September 30, 2004.

Our general and administrative expenses during the nine months ended September 30, 2004 were \$3,955,626, an increase of \$2,774,493, or 235% as compared to the nine months ended September 30, 2003. The primary causes of the increased expenses were as follows:

|   |              |
|---|--------------|
| Excess of purchase price over fair market value of assets purchased   | \$ 559,514   |
| Discount from market price on 2,024,996 common shares issued in debt conversion                               | 462,249      |
| Increased legal, accounting and consulting expenses due to acquisitions and public company issues             | 436,816      |
| Increased wages and rent expense associated with fourteen additional emissions testing stations               | 697,753      |
| Increased depreciation and maintenance expense associated with fourteen additional emissions testing stations | 131,503      |
|   | \$ 2,287,835 |

Interest Expense, Taxes, and Net Loss

Our interest expense, income tax benefit, and net loss for the quarter ended September 30, 2004 as compared to the quarters ended September 30, 2003 and December 31, 2003 are as follows:

|                                  | Quarter Ended<br>September 30,<br>2004 | Quarter Ended<br>September 30,<br>2003 | Percentage<br>Change | Quarter Ended<br>December 31,<br>2003 |
|----------------------------------|--|--|----------------------|---------------------------------------|
| Interest Expense                 | \$ 13,793                              | \$ 39,796                              | (65)%                | \$ 33,606                             |
| Income Tax Benefit               | -                                      | -                                      | -                    | -                                     |
| Net Loss                         | (460,321)                              | (427,624)                              | 8%                   | (531,745)                             |
| Basic and Diluted Loss per Share | (0.02)                                 | (0.04)                                 | (50)%                | (0.05)                                |

Our interest expense during the quarter ended September 30, 2004 was \$13,793, a \$26,003, or 65% decrease compared to \$39,796 for the quarter ended September 30, 2003. The decrease was due to interest costs associated with convertible debentures and promissory notes, which were converted to common stock in December 2003, January 2004 and June 2004.

During the quarter ended September 30, 2004, we had a net loss of \$460,321 or \$0.02 per weighted-average share. During the quarter ended September 30, 2003, we reported a net loss of \$427,624 or \$0.04 per weighted-average share. The \$32,697 increase in net loss for the quarter ended September 30, 2004 was primarily due to increased costs related to stock and acquisition transactions, as detailed above, partially offset by an increase of \$421,193 in revenue less cost of emission certificates, due to the acquisition of new stores, for the quarter ended September 30, 2004 compared to the quarter ended September 30, 2003.

Our interest expense, income tax benefit, and net loss for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003 and December 31, 2003 are as follows:

|                                  | Nine Months<br>Ended<br>September 30,<br>2004 | Nine Months<br>Ended<br>September 30,<br>2003 | Percentage<br>Change | Nine Months<br>Ended<br>December 31,<br>2003 |
|----------------------------------|---|---|----------------------|--|
| Interest Expense                 | \$ 49,633                                     | \$ 103,670                                    | (52)%                | \$ 108,839                                   |
| Income Tax Benefit               | -   | -   | -                    | -  |
| Net Loss                         | (2,532,553)                                   | (947,448)                                     | 167%                 | (1,333,046)                                  |
| Basic and Diluted Loss per Share | (0.12)  | (0.11)  | 9%                   | (0.13)                                       |

Our interest expense during the nine months ended September 30, 2004 was \$49,633, a \$54,037, or 52% decrease compared to \$103,670 for the nine months ended September 30, 2003. The decrease was due to interest costs associated with convertible debentures and promissory notes, which were converted to common stock in December 2003, January 2004 and June 2004.

During the nine months ended September 30, 2004, we had a net loss of \$2,532,553 or \$0.12 per weighted-average share. During the nine months ended September 30, 2003, we reported a net loss of \$947,448 or \$0.11 per weighted-average share. The \$1,585,105 increase in net loss for the nine months ended September 30, 2004 was primarily due to increased costs related to stock and acquisition transactions, as detailed above, partially offset by an increase of \$1,135,351 in revenue less cost of emission certificates, due to the acquisition of new stores, for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

## Liquidity and Capital Resources

### Introduction

During the nine months ended September 30, 2004, we did not generate positive operating cash flows. As the acquisitions described above are assimilated, we will continue to implement our growth strategy. We anticipate an increase in our operating cash flow, but with the increased costs of expanding our operations, may not achieve positive operating cash flow during 2004. Therefore, during the nine months ended September 30, 2004, we raised \$987,550 from the sale of common stock and warrants, the proceeds of which were used for working capital expenses. To date, the Company has funded operations and acquisitions primarily through the issuance of equity securities to related parties. We anticipate raising additional capital during the fourth quarter of 2004 from the sale of our equity securities.

The two acquisitions, which occurred in January 2004, were funded from the private placement of \$2,500,000 of our Series A Convertible Preferred Stock and warrants to GCA Strategic Investment Fund Limited, an existing affiliate shareholder. The acquisition, which was completed during June 2004, was funded from the \$285,000 private placement of common stock and warrants to qualified investors.

Our cash, current assets, total assets, current liabilities, and total liabilities as of September 30, 2004 as compared to December 31, 2003 were:

|                           | As of<br>September 30,<br>2004 | As of<br>December 31,<br>2003 | Change    |
|---------------------------|--------------------------------|-------------------------------|-----------|
| Cash                      | \$ 76,138                      | \$ 9,231                      | \$ 66,907 |
| Total current assets      | 121,563                        | 27,629                        | 93,934    |
| Total assets              | 3,109,950                      | 548,206                       | 2,561,744 |
| Total current liabilities | 1,118,741                      | 1,243,997                     | (125,256) |
| Total liabilities         | 1,152,838                      | 1,243,997                     | (91,159)  |

### Cash Requirements

For the nine months ended September 30, 2004 our net cash used in operating activities was (\$600,032), as compared to (\$441,927) for the nine months ended September 30, 2003. Negative operating cash flows during the nine months ended September 30, 2004 were primarily created by a net loss from operations of \$2,532,553, partially offset by non-cash stock related expenses of \$1,371,827, an increase of 319,298 in accounts payable and accrued liabilities and depreciation and amortization of \$174,231. Because of our rapid growth, we do not have an opinion as to how indicative these results will be of future results.

Negative operating cash flows in the nine months ended September 30, 2003 were primarily created by a net loss from operations of \$947,448, partially offset by an increase of 158,880 in accounts payable and accrued liabilities, a non-cash acquisition fee of \$125,000, depreciation and amortization of \$119,344 and an increase of \$102,586 in accrued interest payable to related parties.

### Sources and Uses of Cash

Net cash used in investing activities was \$2,524,876 and \$33,747, respectively, for the nine months ended September 30, 2004 and 2003. The investing activities during the nine months ended September 30, 2004 involved primarily \$2,376,015 used in the acquisition of businesses. The investing activities during the nine months ended September 30, 2003 involved the purchase of property and equipment.

Net cash provided by financing activities was \$3,191,815 and \$370,000, respectively, for the nine months ended September 30, 2004 and 2003. Net cash provided during the nine months ended September 30, 2004 resulted primarily from the \$2,500,000 in proceeds from the sale of convertible preferred stock, net of \$266,000 in associated financing costs and an increase of \$987,550 resulting from a private placement of the Company's common stock and warrants. Net cash provided during the nine months ended September 30, 2003 resulted primarily from the \$400,000 in proceeds from the issuance of convertible debt to related parties, net of \$30,000 in associated financing costs.

On January 18, 2004, the combined principal amount of \$225,000 and accrued interest amount of approximately \$55,000 outstanding under one of our promissory notes were converted into 1,100,000 shares of our common stock at an exchange rate of \$0.25 per common share.

On June 16, 2004, the combined principal amount of \$315,000 and accrued interest amount of approximately \$9,000 outstanding under a series of our promissory notes were converted into 924,996 shares of our common stock at an exchange rate of \$0.35 per common share.

We are not generating sufficient cash flow from operations to fund growth as we continue to acquire and open new emission testing stations. If we can successfully complete one or more acquisitions of profitable businesses, then we anticipate that we can operate at a profitable level. Until such time, however, and in order to complete the acquisitions, we will need to raise additional capital through the sale of our equity securities. If we are unsuccessful in raising the required capital, we may have to curtail operations.

### **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 its Board of Directors, the Company has identified accounting policies related to valuation of its common stock and for assessing whether any value should be assigned to a warrant that it believes 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 a 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-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days of the filing of this quarterly report (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 significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the Evaluation Date.



## **PART II**

### **ITEM 1 Legal Proceedings**

In the ordinary course of business, we are from time to time involved in various pending or threatened legal actions. The litigation process is inherently uncertain and it is possible that the resolution of such matters might have a material adverse effect upon our financial condition and/or results of operations. However, in the opinion of our management, matters currently pending or threatened against us are not expected to have a material adverse effect on our financial position or results of operations.

### **ITEM 2 Changes in Securities and Use of Proceeds**

In June, July, and August 2004, we issued a total of 785,860 shares of our common stock, restricted in accordance with Rule 144, along with warrants to purchase a total of 392,859 shares of our common stock at \$0.75 per share, to seven (7) accredited investors in a private placement exempt from registration pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933.

In August 2004, we issued 122,017 shares of our common stock, restricted in accordance with Rule 144, to our legal counsel and two consultants for services rendered. The issuances were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, and all the investors were accredited.

In August 2004, we issued 855,000 shares of common stock, restricted in accordance with Rule 144, to thirteen (13) existing accredited investors in a private placement exempt from registration pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as consideration under anti-dilution provisions of their securities purchase agreements.

### **ITEM 3 Defaults Upon Senior Securities**

On June 13, 2003, our subsidiary entered into a consulting agreement with V2R, Inc., which is controlled by Bahram Yusefzadeh, who subsequent to June 13, 2003 became one of our directors. Under the terms of the agreement, our subsidiary agreed to pay to V2R, upon the successful closing of a merger or acquisition of our subsidiary with a publicly traded corporation, the sum of \$225,000. Of this amount, \$125,000 was to be paid in accordance with the terms of a promissory note. The principal balance of the note was due on December 31, 2003, but was extended pursuant to an amendment dated December 30, 2003 to the earlier to occur of (i) the closing of a round of equity or debt financing in excess of \$1,500,000, (ii) 90 days after the effectiveness of a registration statement, or (iii) in three equal installments beginning March 1, 2004, May 1, 2004, and July 1, 2004. The entire principal and interest became due on January 21, 2004 when we closed a round of equity financing in excess of \$1,500,000; however, as of the date hereof we have only made one payment of \$41,666, leaving an unpaid balance of principal and interest of \$90,317 as of September 30, 2004.

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

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

### **ITEM 5 Other Information**

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



**ITEM 6 Exhibits and Reports on Form 8-K**

(a) Exhibits

- 2.1 (4) Asset Purchase Agreement dated June 11, 2004
- 2.2 (4) Bill of Sale dated June 11, 2004
- 3.1 (1) Articles of Incorporation of SKTF Enterprises, Inc.
- 3.2 (2) Articles of Amendment to Articles of Incorporation of SKTF Enterprises, Inc.
- 3.3 (1) Bylaws of SKTF Enterprises, Inc.
- 4.1 (3) Certificate of Designation of Series A Convertible Preferred Stock
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Chief Executive Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Chief Financial Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(1) Incorporated by reference from our Pre-Effective Registration Statement on Form SB-2 dated and filed with the Commission on August 30, 2001.

(2) Incorporated by reference from our Current Report on Form 8-K dated August 29, 2003 and filed with the Commission on September 2, 2003

(3) Incorporated by reference from our Current Report on Form 8-K dated January 26, 2004 and filed with the Commission on January 29, 2004.

(4) Incorporated by reference from our Current Report on Form 8-K dated June 17, 2004 and filed with the Commission on June 18, 2004.

(b) Reports on Form 8-K

On August 24, 2004, we filed an Item 2.01 and Item 9.01 Current Report on Form 8-K dated August 23, 2004 regarding our determination that financial statements did not need to be filed for the BB&S Emissions, LLC

acquisition.

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**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.

Dated: April 15, 2005

**Speedemissions, Inc.**

/s/ Richard A. Parlontieri

By: Richard A. Parlontieri, President

/s/ William Klenk

By: William Klenk, Chief Financial Officer