

SPEDEMISSIONS INC
Form 10-Q
August 10, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____.

Commission file number: 000-49688

Speedemissions, Inc.

(Exact name of registrant as specified in its charter)

Florida

33-0961488

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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 August 3, 2010, there were 12,613,528 shares of common stock, par value \$0.001, issued and outstanding.

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Speedemissions, Inc.

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CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION

This quarterly report on Form 10-Q of Speedemissions, Inc. (Speedemissions or the Company) contains forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the Exchange Act). These statements are based on management s current expectations, estimates and projections about the emissions testing and safety inspection industry. 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 and Results of Operations. Forward-looking statements also include statements in which words such as expects, anticipates, intends, plans, believes, estimates, considers and similar expressions are intended to identify such forward-looking statements.

Forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties, and other factors, some of which are beyond the Company s control and are difficult to predict. The Company s future results and shareholder values may differ materially from those expressed or forecast in these forward-looking statements. The reader should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, Speedemissions undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements
Speedemissions, Inc. and Subsidiaries****Consolidated Balance Sheets**

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash	\$ 463,368	\$ 449,203
Other current assets	165,684	136,790
Total current assets	629,052	585,993
Property and equipment, at cost less accumulated depreciation and amortization	814,765	953,183
Goodwill	4,251,657	4,251,657
Other assets	105,803	104,003
Total assets	\$ 5,801,277	\$ 5,894,836
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 221,918	\$ 177,647
Accrued liabilities	253,564	196,544
Current portion of capitalized lease obligations	42,123	47,288
Current portion of equipment financing obligations	20,266	18,865
Current portion - deferred rent	30,513	30,513
Total current liabilities	568,384	470,857
Capitalized lease obligations, net of current portion	64,301	93,604
Equipment financing obligations, net of current portion	35,069	46,389
Deferred rent	185,187	205,701
Other long term liabilities	7,350	7,350
Total liabilities	860,291	823,901
Commitments and contingencies		
Series A convertible, redeemable preferred stock, \$.001 par value, 5,000,000 shares authorized, 5,133 shares issued and outstanding; liquidation preference: \$5,133,000	4,579,346	4,579,346
Shareholders equity:		
Series B convertible preferred stock, \$.001 par value, 3,000,000 shares authorized, 1,783,982 shares issued and outstanding with a liquidation preference of \$4,581,266 at June 30, 2010 and 2,279,982 shares issued and outstanding with a liquidation preference of \$5,854,991 at December 31, 2009	1,784	2,280
Common stock, \$.001 par value, 250,000,000 shares authorized, 10,935,208 and 6,685,448 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	10,935	6,685
Additional paid-in capital	15,816,625	15,795,364
Accumulated deficit	(15,467,704)	(15,312,740)

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Total shareholders' equity	361,640	491,589
Total liabilities and shareholders' equity	\$ 5,801,277	\$ 5,894,836

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Revenue	\$ 2,495,734	\$ 2,586,308	\$ 4,948,847	\$ 5,058,250
Costs of operations:				
Cost of emission certificates	567,255	564,666	1,108,741	1,113,243
Store operating expenses	1,535,403	1,574,762	3,092,125	3,147,591
General and administrative expenses	486,361	361,053	881,624	662,419
(Gain) loss on disposal of non-strategic assets	4,724	(24,830)	9,713	(24,830)
Operating income (loss)	(98,009)	110,657	(143,356)	159,827
Interest income (expense)				
Interest income	13	26	628	51
Interest expense	(5,393)	(7,767)	(12,236)	(14,810)
Interest expense, net	(5,380)	(7,741)	(11,608)	(14,759)
Net income (loss)	\$ (103,389)	\$ 102,916	\$ (154,964)	\$ 145,068
Basic net income (loss) per share	\$ (0.01)	\$ 0.02	\$ (0.02)	\$ 0.03
Diluted net income (loss) per share	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.02
Weighted average common shares outstanding, basic	8,509,834	5,162,108	7,736,631	5,162,108
Weighted average common shares outstanding, diluted	8,509,834	9,439,606	7,736,631	9,439,606

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ (154,964)	\$ 145,068
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	142,666	159,841
(Gain) loss on disposal of assets	9,713	(24,830)
Share-based compensation	25,014	23,674
Changes in operating assets and liabilities:		
Other current assets	(28,894)	(892)
Other assets	(1,800)	(750)
Accounts payable and accrued liabilities	101,292	(161,314)
Other liabilities	(20,514)	(1,548)
 Net cash provided by operating activities	 72,513	 139,249
Cash flows from investing activities:		
Proceeds from sales of property and equipment	20,000	24,830
Purchases of property and equipment	(33,961)	(43,992)
 Net cash used in investing activities	 (13,961)	 (19,162)
Cash flows from financing activities:		
Payments on equipment financing obligations	(9,919)	(7,892)
Payments on capitalized leases	(34,468)	(20,355)
 Net cash used in financing activities	 (44,387)	 (28,247)
 Net increase in cash	 14,165	 91,840
Cash at beginning of period	449,203	512,492
 Cash at end of period	 \$ 463,368	 \$ 604,332
Supplemental Information:		
Cash paid during the period for interest	\$ 12,236	\$ 10,385

See accompanying notes to consolidated financial statements.

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Speedemissions, Inc.

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited)

Note 1: Nature of Operations

Description of Business

Speedemissions, Inc. (Speedemissions or the Company) performs vehicle emissions testing and safety inspections in certain cities in which vehicle emissions testing is mandated by the Environmental Protection Agency (EPA). 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. As of June 30, 2010, the Company operated 40 vehicle emissions testing and safety inspection stations under the trade names of *Speedemissions* (Atlanta, Georgia and St. Louis, Missouri); *Mr. Sticker* (Houston, Texas); and *Just Emissions* (Salt Lake City, Utah). The Company also operates four mobile testing units in the Atlanta, Georgia area. The Company manages its operations based on these four regions and has one reportable segment.

At its vehicle emissions testing and safety inspection stations, the Company uses computerized emissions testing equipment and safety inspection equipment that tests vehicles for compliance with emissions and safety standards.

On June 22, 2010, the Company announced the launch of its first iPhone application, Carbonga. Carbonga is an iPhone application that diagnoses an automobile's computer systems using the on board diagnostic port on vehicles that are 1996 or newer. Carbonga can check over 2,000 vehicle fault codes.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) as codified in the Financial Accounting Standards Board (FASB) Accounting Standards Codification. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The financial statements and related notes do not include all information and footnotes required by GAAP for annual reports. This quarterly report should be read in conjunction with the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

The Company has evaluated subsequent events through the date of filing its Form 10-Q with the Securities and Exchange Commission. The Company is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the Company's Consolidated Financial Statements.

Consolidation

The accompanying consolidated financial statements include the accounts of Speedemissions and non-operating subsidiaries, which are 100% owned by the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2: Significant Accounting Policies and Estimates

Use of Estimates

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 periods. Significant estimates included in these financial statements relate to useful lives of property and equipment, the valuation allowance provided against deferred tax assets and the valuation of long-lived assets and goodwill. Actual results could differ from those estimates. For a description of

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Speedemissions critical accounting policies see the Company's annual report on Form 10-K for the year ended December 31, 2009.

Fair Value Measurements

The Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities. The Company has no Level 1 assets or liabilities.

Level 2 Observable inputs, other than quoted prices included in Level 1, such a quoted prices for markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Company has no Level 2 assets or liabilities.

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Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs. The Company had no Level 3 assets or liabilities at June 30, 2010 or December 31, 2009. However, goodwill is evaluated at least annually for impairment based on Level 3 inputs. For a further discussion of how the Company measures the value of the reporting units and goodwill, see Note 5 Goodwill in the Company's annual report on Form 10-K for the year ended December 31, 2009.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these accounts. Fair value of the equipment financing agreements and capital lease obligations approximate carrying value based upon current borrowing rates.

Note 3: Property and Equipment

Property and equipment at June 30, 2010 and December 31, 2009 consisted of the following:

	June 30, 2010	December 31, 2009
Buildings	\$ 485,667	\$ 485,667
Emission testing and safety inspection equipment	1,539,535	1,568,622
Furniture, fixtures and office equipment	152,659	145,882
Vehicles	25,772	23,272
Leasehold improvements	288,786	292,325
	2,492,419	2,515,768
Less: accumulated depreciation and amortization	1,677,654	1,562,585
	\$ 814,765	\$ 953,183

Note 4: Accrued Liabilities

Accrued liabilities at June 30, 2010 and December 31, 2009 consisted of the following: