

SPEEDEMISSIONS INC
Form 10-Q
May 12, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2009

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

For the transition period from to .

Commission file number: 000-49688

Speedemissions, Inc.

(Exact name of registrant as specified in its charter)

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Florida
(State or other jurisdiction of
incorporation or organization)

33-0961488
(I.R.S. Employer
Identification No.)

1015 Tyrone Road

Suite 220

Tyrone, GA
(Address of principal executive offices)

30290
(Zip Code)

Issuer's telephone number (770) 306-7667

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the 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 May 4, 2009, there were 5,162,108 shares of common stock, par value \$0.001, issued and outstanding.

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PART I FINANCIAL INFORMATION

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, which speak only as of the date on which such statements are made. We undertake no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date on which such statements were made or to reflect the occurrence of unanticipated events.

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

	March 31, 2009 (unaudited)	December 31, 2008
Assets		
Current assets:		
Cash	\$ 542,769	\$ 512,492
Other current assets	145,528	137,691
Total current assets	688,297	650,183
Property and equipment, at cost less accumulated depreciation and amortization	1,141,465	1,214,737
Goodwill	7,100,572	7,100,572
Other assets	97,937	100,937
Total assets	\$ 9,028,271	\$ 9,066,429
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 382,817	\$ 498,554
Accrued liabilities	275,756	237,127
Current portion of capitalized lease obligations	43,234	41,962
Current portion of equipment financing obligations	16,953	16,362
Current portion deferred rent	17,949	17,949
Total current liabilities	736,709	811,954
Capitalized lease obligations, net of current portion	129,600	140,897
Equipment financing obligations, net of current portion	59,964	64,431
Deferred rent	229,383	230,521
Other long term liabilities	7,350	7,350
Total liabilities	1,163,006	1,255,153
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, 2,481,482 shares issued and outstanding; liquidation preference: \$6,372,446	2,481	2,481
Common stock, \$.001 par value, 250,000,000 shares authorized, 5,162,108 shares issued and outstanding	5,162	5,162
Additional paid-in capital	15,761,792	15,749,955
Accumulated deficit	(12,483,516)	(12,525,668)

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Total shareholders' equity	3,285,919	3,231,930
Total liabilities and shareholders' equity	\$ 9,028,271	\$ 9,066,429

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2009	2008
Revenue	\$ 2,471,942	\$ 2,429,754
Cost of operations:		
Cost of emission certificates	548,577	524,789
Store operating expenses	1,572,829	1,487,068
General and administrative expenses	301,366	485,446
Operating income (loss)	49,170	(67,549)
Interest income (expense)		
Interest income	25	864
Interest expense	(7,043)	(9,534)
Interest expense, net	(7,018)	(8,670)
Income (loss) from continuing operations	42,152	(76,219)
Income (loss) from discontinued operations, net of income taxes		(99,413)
Net income (loss)	\$ 42,152	\$ (175,632)
Basic net income (loss) per share from continuing operations	\$ 0.01	\$ (0.01)
Diluted net income (loss) per share from continuing operations	\$	\$ (0.01)
Basic net income (loss) per share from discontinued operations	\$	\$ (0.02)
Diluted net income (loss) per share from discontinued operations	\$	\$ (0.02)
Basic net income (loss) per share	\$ 0.01	\$ (0.03)
Diluted net income (loss) per share	\$	\$ (0.03)
Weighted average common shares outstanding, basic	5,162,108	5,162,108
Weighted average common shares outstanding, diluted	9,439,606	5,162,108

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2009	2008
Operating activities:		
Net income (loss)	\$ 42,152	\$ (175,632)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	79,800	85,478
Share-based compensation	11,837	27,106
Changes in operating assets and liabilities		
Other current assets	(7,837)	868
Other assets	3,000	(750)
Accounts payable and accrued liabilities	(77,109)	(108,390)
Other liabilities	(1,138)	(2,581)
Net cash (used in) provided by operating activities	50,705	(173,901)
Cash flows used in investing activities:		
Purchases of property and equipment	(6,527)	(55,686)
Net cash used in investing activities	(6,527)	(55,686)
Cash flows used in financing activities:		
Payments on debt	(3,876)	
Payments on capitalized leases	(10,025)	(11,861)
Net cash used in financing activities	(13,901)	(11,861)
Net increase (decrease) in cash	30,277	(241,448)
Cash, at beginning of period	512,492	804,662
Cash, at end of period	\$ 542,769	\$ 563,214
Supplemental Information:		
Cash paid during the period for interest	\$ 8,211	\$ 9,534
Non-cash investing activities:		
Non-cash asset additions acquired through financing obligations and capital leases	\$	\$ 31,425

See accompanying notes to consolidated financial statements.

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Speedemissions, Inc.

Notes to Consolidated Financial Statements

March 31, 2009

(Unaudited)

Note 1: Basis of Presentation

Speedemissions, Inc. (the Company), a Florida corporation, operates vehicle emissions testing and safety inspection centers in four separate markets, greater Atlanta, Georgia; Houston, Texas; St. Louis, Missouri and Salt Lake City, Utah. The Company manages its operations based on these four regions and has one reportable segment. Throughout this report, the terms we, us, our, Speedemissions, and Company refer to Speedemissions, Inc., including its wholly-owned subsidiaries. As of May 4, 2009, we operated 39 vehicle emissions testing and safety inspection centers in these regions and four mobile units in the Atlanta, Georgia area.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission. 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 U.S. generally accepted accounting principles 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, 2008.

Note 2: Summary of Significant Accounting Policies

Nature of Operations

Speedemissions performs vehicle emissions testing and safety inspections in certain cities in which vehicle emissions testing is mandated by the Environmental Protection Agency (EPA). We use computerized emissions testing and safety inspections equipment that test vehicles for compliance with vehicle emissions and safety standards. Our revenues are generated from the test or inspection fee charged to the registered owner of the vehicle. We do not provide automotive repair services.

The Company's 39 emissions testing and safety inspection stations operate under the trade names *Speedemissions* (Georgia and Missouri), *Mr. Sticker* (Texas) and *Just Inc.* (Utah). At its emissions testing and safety inspection stations, the Company uses computerized emissions testing equipment and safety inspection equipment that test vehicles for compliance with emissions and safety standards. In the emissions testing and safety inspection industry, such stations are known as decentralized facilities. The Company utilizes basic testing systems that test a motor vehicle's emissions while in neutral and enhanced testing systems that test a vehicle's emissions under simulated driving conditions.

Revenue Recognition

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

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

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS 141R, *Business Combinations* (SFAS 141R), which changes the way we account for business acquisitions. SFAS 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a

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business combination. Certain provisions of SFAS 141R will, among other things, impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquired contingencies, acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. SFAS 141R became effective for us on January 1, 2009 and the adoption did not have an impact on our financial statements.

In March 2008, FASB issued SFAS No. 161 *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB statement No. 133* (SFAS 161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 became effective for us on January 1, 2009 and the adoption did not have an impact on our financial statements.

In June 2008, FASB issued FSP Emerging Issues Task Force (EITF) Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. This FSP affects entities that accrue dividends on share-based payment awards during the awards' service period when the dividends do not need to be returned if the employees forfeit the award. FSP EITF 03-6-1 became effective for us on January 1, 2009 and the adoption did not have an impact on our financial statements.

In April 2009, the FASB issued FASB Staff Position No. 107-1 (FSP FAS 107-1) and APB 28-1 (APB 28-1), which amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* and APB Opinion No. 28, *Interim Financial Reporting*, to require disclosures about the fair value of financial instruments for interim reporting periods. FSP FAS 107-1 and APB 28-1 will be effective for interim reporting periods ending after June 15, 2009. We are currently evaluating the future impacts and disclosures of this staff position.

Note 3: Discontinued Operations

Discontinued operations include results attributable to 12 emissions testing and safety inspection centers that were located within Sears Auto Centers in the Dallas, Texas area. Eight of these stores were closed in July 2008 and the remaining four were closed on January 5, 2009. Loss from discontinued operations includes the historical loss from these operations.

Loss from discontinued operations:

	Three Months Ended March 31,	
	2009	2008
Revenues	\$	\$ 53,665
Loss from discontinued operations	\$	\$ (99,413)

Note 4: Property and Equipment

Property and equipment at March 31, 2009 and December 31, 2008 consisted of the following:

	March 31, 2009	December 31, 2008
Building	\$ 485,667	\$ 485,667
Emission testing and safety inspection equipment	1,818,579	1,816,579
Furniture, fixtures and office equipment	130,870	128,519
Vehicles	3,664	13,165
Leasehold improvements	258,998	254,820
	2,697,778	2,698,750

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Less: accumulated depreciation and amortization	1,556,313	1,484,013
	\$ 1,141,465	\$ 1,214,737

Note 5: Accrued Liabilities

Accrued liabilities at March 31, 2009 and December 31, 2008 consisted of the following:

	March 31, 2009	December 31, 2008
Emissions testing equipment	\$ 5,270	\$ 5,270
Professional fees	89,310	83,724
Accrued payroll	94,381	60,669
Accrued store closing expenses	1,193	46,473
Other	85,602	40,991
	\$ 275,756	\$ 237,127

Note 6: Equipment Financing Agreements

In December 2007, the Company entered into sixty- month equipment financing agreements with two financing companies in the amounts of \$55,124 and \$40,458, respectively. The financing agreements are secured by the related equipment and are personally guaranteed by the President of the Company.

The Company's equipment financing agreements consist of the following:

	March 31, 2009	December 31, 2008
Equipment financing agreements	\$ 76,917	\$ 80,793
Less: current portion	16,953	16,362
Long term portion	\$	