

SPEDEMISSIONS INC
Form 10QSB
August 15, 2005

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-QSB

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

For the quarterly period ended June 30, 2005

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

For the transition period from _____ to _____.

Commission file number: 000-49688

Speedemissions, Inc.

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

Florida
(State or other jurisdiction of
incorporation or organization)

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

1139 Senoia Road
Suite B
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 Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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 August 9, 2005, there were 26,610,808 shares of common stock, par value \$0.001, issued and outstanding.

Transitional Small Business Disclosure Format

(check one):

Yes No

Speedemissions, Inc.

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PART I

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

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

ITEM 1 Financial Statements

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Speedemissions, Inc.**Condensed Consolidated Balance Sheet****June 30, 2005****(Unaudited)**

Assets	
Current assets:	
Cash	\$ 87,777
Other current assets	160,718
Deferred tax asset	23,960
Total current assets	272,455
Property and equipment, at cost less accumulated depreciation and amortization	1,272,737
Goodwill	5,818,543
Other assets	65,109
Total assets	\$ 7,428,844
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 687,688
Debt payable to related parties	1,091,872
Accrued interest on debt payable to related parties	218,506
Current portion of capitalized lease obligation	35,854
Total current liabilities	2,033,920
Long-term liabilities:	
Debt payable to related parties less current portion	1,152,462
Capitalized lease obligation less current portion	10,458
Deferred tax Liability	49,512
Total long-term liabilities	1,212,432
Total liabilities	3,246,352
Commitments and contingencies	
Stockholders' equity:	

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Series A convertible and cumulative preferred stock, \$.001 par value, 5,000,000 shares authorized, 2,500 shares issued and outstanding	3
Series B convertible and cumulative preferred stock, \$.001 par value, 3,000,000 shares authorized, 2,500,000 shares issued and outstanding	2,500
Common stock, \$.001 par value, 100,000,000 shares authorized, 25,737,522 shares issued and outstanding	25,738
Additional paid-in capital	19,241,484
Deferred compensation	(53,544)
Series B convertible and cumulative preferred stock, subscription receivable	(2,746,400)
Accumulated deficit	(12,287,289)
Total stockholders' equity	4,182,492
Total liabilities and stockholders' equity	\$ 7,428,844

The accompanying notes are an integral part of these condensed consolidated financial statements.

Speedemissions, Inc.**Condensed Consolidated
Statements of Operations
(Unaudited)**

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Revenue	\$ 1,255,586	\$ 748,608	\$ 2,533,876	\$ 1,367,005
Costs and expenses:				
Cost of emissions certificates	391,677	230,343	820,720	415,751
General and administrative expenses	1,263,803	1,335,090	2,410,687	2,987,647
Loss from operations	(399,894)	(816,825)	(697,531)	(2,036,393)
Interest expense	65,293	16,908	129,386	35,839
Net loss	\$ (465,187)	\$ (833,733)	\$ (826,917)	\$ (2,072,232)
Basic and diluted net loss per share				
Net loss	\$ (465,187)	\$ (833,733)	\$ (826,917)	\$ (2,072,232)
Less: preferred stock dividends (undeclared)	44,110	44,110	88,220	77,672
Less: beneficial conversion feature on Series B convertible preferred stock	4,577,632		4,577,632	
Net loss attributable to common shareholders	\$ (5,086,929)	\$ (877,843)	\$ (5,492,769)	\$ (2,149,904)
	(0.20)	\$ (0.04)	(0.22)	\$ (0.11)
Weighted average shares outstanding, basic and diluted	25,095,166	20,786,921	24,970,461	19,919,019

The accompanying notes are an integral part of these condensed consolidated financial statements.

Speedemissions, Inc.**Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2005 and 2004
(Unaudited)**

	2005	2004
Operating activities:		
Net loss	\$ (826,917)	\$ (2,072,232)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	169,231	113,690
Loss on sale of assets	14,046	
Stock expense incurred in payment of promissory notes	-	489,812
Stock expense incurred in business acquisition	-	559,514
Stock option expenses	(19,949)	31,070
Stock issued for services	293,156	226,762
Changes in operating assets and liabilities, net of acquisitions:		
Other current assets	(5,058)	42,686
Other assets	13,695	(36,759)
Accrued interest on long-term debt payable to related parties	105,968	28,927
Accounts payable and accrued liabilities	(161,978)	269,633
Net cash used by operating activities	(417,806)	(346,897)
Cash flows from investing activities:		
Acquisition of businesses	(3,100,000)	(2,376,015)
Proceeds from asset sales	34,000	
Net purchases of property and equipment	-	(147,303)
Cash acquired in acquisition	2,743	-
Net cash used by investing activities	(3,063,257)	(2,523,318)
Cash flows from financing activities:		
Proceeds from issuance of convertible preferred stock to related party, net of expenses	3,160,000	2,234,000
Proceeds from issuance of common stock and warrants	-	712,500
Proceeds from promissory note payable to related party	350,000	50,000
Payments on promissory notes	(20,000)	(41,666)
Proceeds from convertible debenture	90,000	
Payments on capitalized leases	(27,591)	(21,729)
Net cash provided by financing activities	3,552,409	2,933,105
Net increase in cash	71,346	62,890
Cash at beginning of period, December 31	16,431	9,231
Cash at end of period, June 30	\$ 87,777	\$ 72,121

Supplemental Information:

Cash paid during the period for interest	\$	7,989	\$	6,876
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Non-cash Investing and Financing activities:

Equity securities issued in connection with the acquisition of Mr. Sticker, Inc.	\$	43,000	\$	-
Equity securities issued in connection with the acquisition of Twenty Dollar Emission, Inc.	\$	-	\$	573,790
Equity securities issued in payment of notes payable	\$	57,418	\$	539,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

Speedemissions, Inc.
Notes to Condensed Consolidated Financial Statements

June 30, 2005
(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 emissions testing stations. Effective as of March 19, 2002, Emissions Testing and Speedemissions, LLC merged and changed its name to Speedemissions, Inc. 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.

SKTF was a development stage company that had not begun operations and had no revenues and a minimal amount of assets and liabilities. For accounting purposes, Speedemissions is viewed as the acquiring entity and has accounted for the transaction as a reverse acquisition. 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 subsequent to the acquisition. Results of operations subsequent to the date of acquisition reflect the consolidated results of operations of Speedemissions and SKTF. Operations for periods prior to the acquisition reflect those of Speedemissions. Assets and liabilities of Speedemissions and SKTF have been consolidated at their historical cost carrying amounts at the date of acquisition.

Effective on September 5, 2003, SKTF Enterprises, Inc. changed its name to Speedemissions, Inc. For ease of reference, these notes and the accompanying 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.

On June 30, 2005, the Company purchased all of the outstanding common stock of Mr. Sticker, Inc., (Mr. Sticker) a Houston, Texas, company that operates six (6) emissions testing stations in the Houston, Texas, area. The purchase price was \$3,100,000 in cash plus approximately 183,000 shares of the Company's common stock. Mr. Sticker's financial statements have been consolidated, as a wholly owned subsidiary, with the Company's financial statements as of June 30, 2005.

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, SKTF and Mr. Sticker 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 June 30, 2005 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 our Company's audited financial statements contained in our Form 10-KSB for the year ended December 31, 2004.

Nature of Operations

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

As of June 30, 2005 the Company operated, twenty-eight (28) emissions testing stations and four (4) mobile units in Georgia and Texas. The Company does business under the trade names *Speedemissions* and *Mr. Sticker*. 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 generally accepted accounting principles 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 balance sheet. Accordingly, 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 emissions test is limited to \$25.00 per vehicle, which is recorded by the Company as gross revenue. The cost of emissions certificates paid to the state of Georgia 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 emissions test is generally limited to \$39.50 per vehicle, which is recorded by the Company as gross revenue. The cost of emissions certificates paid to the state of Texas 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 normally requires that the customer's payment be made with cash, check or credit card; accordingly, the Company does not have significant levels of accounts receivable.

Under current Georgia 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 June 30, 2005 and 2004, the allowance for retest costs was not material.

Fair Value of Financial Instruments

The carrying amounts of cash, approximate fair value because of the short-term nature of these accounts. Management does not believe it is practicable to estimate the fair value of its liability of its financial instruments because of the Company's financial position.

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.

Impairment of Long-Lived Assets

Property and Equipment

The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When indicators of impairment are present, the Company evaluates the carrying amount of such assets in relation to the operating performance and future estimated undiscounted net cash flows expected to be generated by the assets or underlying businesses. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The assessment of the recoverability of the carrying amount of the assets will be impacted if estimated future operating cash flows are not achieved. In the opinion of management, property and equipment was not impaired as of June 30, 2005 or 2004.

Goodwill

The Company has adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), which prescribes the accounting for all purchased goodwill. In accordance with SFAS 142, goodwill is not amortized but tested for impairment annually and also 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 June 30, 2005 and 2004.

Net Loss Per Common Share

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 net loss per share.

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 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. Beginning with the first reporting period that begins after December 31, 2005, we will no longer be allowed to use the intrinsic value recognition method and instead will recognize the cost of employee services received in exchange for equity securities based on the grant date fair value of the awards.

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 consolidated statements of operations, for the 400,000 options classified as variable stock options granted that had an exercise price less than the market value of the underlying common stock on the date of grant (see Note 5). At the end of each calendar quarter, the Company determines a value for the financial effect of the variable stock options. 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.

	Six months ended June 30	
	2005	2004
Net loss, attributable to common shareholders	\$ (5,492,769)	\$ (2,149,904)
Deduct: Total stock based employee compensation expense determined under the fair value method for all awards		
	78,151	362,447
Pro forma net loss	\$ (5,570,920)	\$ (2,512,351)
Loss per share:		
Basic and diluted, as reported	\$ (0.22)	\$ (0.11)
Basic and diluted, pro forma	\$ (0.22)	\$ (0.13)

The fair value of stock options issued during the six months ended June 30, 2005 and 2004 has been determined using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rates of 3.00%; expected lives of 3 years; expected volatility of 45.00%; and no dividend yield.

Recently Issued Accounting Standard

FASB statement No. 123R, "Share Based Payment" becomes effective at the beginning of the Company's quarter ending March 31, 2006 and will require all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values and no longer allow pro forma disclosure as an alternative to financial statement recognition.

Note 3: Factors Affecting Operations

The Company has limited operations and has not yet generated a profit. 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 is actively seeking new sources of financing, however there is no guarantee that the Company will be successful in obtaining the financing required to fund its capital needs.

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 consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Note 4: Long-Term Debt Payable to Related Parties

Long-term debt payable to related parties at June 30, 2005 was as follows:

GCA Fund 10% note (a)	\$300,000
V2R 10% note (b)	63,334
Convertible Debentures (c)	90,000
State Inspections of Texas 12.5% note (d)	120,000
State inspections of Texas non-interest bearing note (e)	36,000
State Inspections of Texas 12.5% note (f)	1,285,000
GCA Fund 8% note (g)	350,000
	2,244,334
Less current portion	1,091,872
	\$1,152,462

(a) 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. At June 30, 2005, the Company had made no interest payments to GCA Fund and thus was not in compliance with the applicable interest payment provisions of the promissory note payable agreements; however, the Company obtained a waiver from GCA Fund regarding such noncompliance.

The \$300,000 promissory note payable is mandatorily redeemable, at the option of GCA Fund, under certain circumstances as outlined in the note payable agreement, including but not limited to a change in control, as defined. The promissory note payable agreement contains certain financial and nonfinancial covenants to which the Company must adhere.

(b) On June 13, 2003, the Company 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 June 30, 2005 we had only made two payments totaling \$61,666, leaving an unpaid balance of principal and interest of approximately \$75,800 as of June 30, 2005. On July 14, 2005, we made an additional payment of \$25,000, leaving an unpaid balance of principal and interest of approximately \$51,747.17 as of that date.

(c) On June 6, 2005, the Company issued a convertible debenture to a qualified investor in the amount of 140,000. The debenture was issued at a 10% discount. The Company received \$90,000 in cash on June 6, 2005 and the balance after June 30, 2005. The debenture is due and payable in 24 months, from the date of issuance, and carries interest at 10.0%. The holder has the right to convert the debenture, at any time prior to maturity, into shares of the Company's common stock at \$0.20 per common share. Additionally the holder received a warrant to purchase 140,000 shares of the Company's common stock. The warrant has a five year term and an exercise price of \$0.25 per share.

(d) On November 15, 2004, State Inspections of Texas, Inc. (SIT) advanced the Company \$120,000 on a secured promissory note. The note is due and payable in 180 days, from the date of issuance, and carries interest at 12.5%. The note is secured by certain real property of the Company. Effective March 31, 2005, the due date on the note was extended to November 15, 2005.

(e) On December 1, 2004, SIT sold the Company certain assets for \$36,000 on an unsecured promissory note. The note was due and payable in 36 equal monthly installments, starting January 2005 and ending December 2008 and carries no interest. No payments on this note were made during the quarter ended June 30, 2005, and effective March 31, 2005 the starting date for the monthly payments was extended to August 2005.

(f) On December 30, 2004, SIT sold the Company certain assets for \$1,285,000 on a secured promissory note. Payment terms of the note are; interest only (12.5% annually) payable monthly from February 2005 through January 2006, monthly principal and interest payments of \$43,000 from February 2006 through June 2008 and a final payment of approximately \$291,000 in July 2008. The note is secured by the assets sold to the Company by SIT under the terms of this promissory note. One interest payments on this note was made during the quarter ended June 30, 2005, and effective March 31, 2005 the starting date for the monthly payments was extended to September 2005.

(g) On January 26, 2005, the Company executed a promissory note in favor of GCA Strategic Investment Fund Limited in the principal amount of \$350,000, and on that date the Company received funds in the same amount. Under the terms of the note, we were obligated to repay the entire principal amount, plus interest at the rate of 8% per year, on April 26, 2005, however payment was not made on that date. Effective as of March 31, 2005, the Company and GCA Fund agreed to extend the maturity date to October 31, 2005. The obligation is secured by certain of our real property. We will use the funds for general working capital purposes. In connection with and as consideration for the issuance of the promissory note, we issued warrants to acquire a total of 200,000 shares of our common stock at \$0.357 per share, and entered into a registration rights agreement in connection therewith. We issued to GCA Strategic Investment Fund Limited warrants to acquire 100,000 shares of our common stock, exercisable for a period of five years at \$0.357 per share. We also issued to Global Capital Advisors, LLC, the investment advisory to GCA Strategic Investment Fund Limited, warrants to acquire 100,000 shares of our common stock, exercisable for a period of five years at \$0.357 per share.

Note 5: Stockholders' Equity

Stockholders' Equity was comprised of the following:

	At June 30, 2005 (unaudited)
Series A convertible and cumulative preferred stock, \$.001 par value, 5,000,000 shares authorized, 2,500 shares issued and outstanding	\$ 3
Series B convertible and cumulative preferred stock, \$.001 par value, 3,000,000 shares authorized, 2,500,000 shares issued and outstanding	2,500
Common stock, \$.001 par value, 100,000,000 shares authorized, 25,737,522 shares issued and outstanding	25,738
Additional paid in capital	19,241,484
Deferred compensation	(53,544)
Series B convertible and cumulative preferred stock, subscriptions receivable	(2,746,400)
Accumulated deficit	(12,287,289)
Total stockholders' equity	\$ 4,182,492

Preferred Stock

On January 21, 2004, the Company completed a private placement of 2,500 shares of its par value \$.001 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 accrues 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. In the event of liquidation, dissolution or winding up of the Company preferred stockholders are entitled to be paid prior to any preference of any other payment or distribution.

On June 30, 2005 the Company completed a private placement of 2,500,000 shares of its par value \$.001 Series B Convertible Preferred Stock (the Preferred B) and 43,900,000 common stock purchase warrants (the B-1 Warrants and the B-2 Warrants) to Barron Partners LP, in exchange for gross proceeds to the Company of \$6,420,000. Net proceeds to the Company after the payment of advisors fees and offering expenses was \$5,846,400. In addition to the cash portion of the advisors fee, the Company issued 2,850,000 common stock purchase warrants (the Advisor's Warrants) to Prospect Financial Advisors, LLC. The 2,850,000 Advisor's Warrants are exercisable for a period of five years at an exercise price of \$0.06 per share of common stock to

be acquired upon exercise. On June 30, 2005, the Company used \$3,100,000 of the net proceeds from the Preferred B placement to purchase all of the outstanding common stock of Mr. Sticker. The remainder of the net proceeds, or \$2,746,400, was received on July 1, 2005 and was retained, by the Company for a future acquisition and current working capital. The \$2,746,400 is recorded in the Company's June 30, 2005, condensed consolidated balance sheet as a convertible preferred stock subscription receivable.

The Preferred Stock does not pay a dividend and has no voting rights. Each share of Preferred Stock is convertible into 42.8 shares of the Company's common stock or 107,000,000 shares of common stock in the aggregate. The 25,000,000 B-1 Warrants are exercisable for a period of five years at an exercise price of \$0.24 per share of common stock to be acquired upon exercise. The 18,900,000 B-2 Warrants are exercisable for a period of five years at an exercise price of \$0.48 per share of common stock to be acquired upon exercise. In the event of liquidation, dissolution or winding up of the Company preferred stockholders are entitled to be paid prior to any preference of any other payment or distribution.

Common Stock

The Company is authorized to issue 100,000,000 shares of \$0.001 par value common stock, of which 25,737,522 and 24,541,594 shares were issued and outstanding as of June 30, 2005 and December 31, 2004, respectively.

In the six months ended June 30, 2005 and 2004, the Company issued 900,534 and 600,000 shares of its common stock, respectively, for general and administrative expenses, which consisted principally of legal and consulting services. The Company recognized an expense of \$293,156 and \$226,762 in the six months ended June 30, 2005 and 2004, respectively. (see note 7).

Stock Option Plan

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. There were 951,750 and 686,750 stock options issued and outstanding as of June 30, 2005 and December 31, 2004, respectively.

On October 2, 2003 the Company issued options to purchase up to 400,000 shares of 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. The 400,000 options granted on December 19, 2003 have been reclassified as variable stock options since they had an exercise price less than the market value of the underlying common stock on the date of grant. The Company recorded \$(19,949) and \$31,070 in compensation (income) expense, respectively, during the six months ended June 30, 2005 and 2004.

On March 10, 2005, the Company granted 265,000 stock options to eleven of its employees. All of the options carried an exercise price of \$.25, vested as of the date of the grant and expire March 10, 2015. No stock-based employee compensation cost has been recorded in the accompanying consolidated statements 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 June 30, 2005, the Company granted 175,000 stock options to two of its employees. All of the options carried an exercise price of \$.235, vested as of the date of the grant and expire June 30, 2015. No stock-based employee compensation cost has been recorded in the accompanying consolidated statements 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.

Stock Warrants

There were 52,630,073 and 5,180,073 common stock warrants issued and outstanding as of June 30, 2005 and December 31, 2004, respectively.

On January 26, 2005, the Company executed a promissory note in favor of GCA Strategic Investment Fund Limited in the principal amount of \$350,000, and on that date the Company received funds in the same amount. In connection with and as consideration for the issuance of the promissory note, we issued warrants to acquire a total of 200,000 shares of our common stock at \$0.357 per share, and entered into a registration rights agreement in connection therewith. We issued to GCA Strategic Investment Fund Limited warrants to acquire 100,000 shares of our common stock, exercisable for a period of five years at \$0.357 per share. We also issued to Global Capital Advisors, LLC, the investment advisory to GCA Strategic Investment Fund Limited, warrants to acquire 100,000 shares of our common stock, exercisable for a period of five years at \$0.357 per share.

On February 22, 2005, we issued warrants to acquire up to 250,000 shares of our common stock, restricted in accordance with Rule 144, to Richard A. Parlontieri, our President and a Director. These warrants were issued as incentive compensation for his work for us and at an exercise price of \$0.25 per share. The issuances were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, and Mr. Parlontieri is a sophisticated investor.

On March 10, 2005, we issued warrants to acquire up to 250,000 shares of our common stock, restricted in accordance with Rule 144, to two unrelated consultants. These warrants were issued for services rendered to us and at an exercise price of \$0.25 per share. The issuances were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, and the consultants are sophisticated investors and familiar with our operations.

On June 30, 2005 the Company completed a private placement of 2,500,000 shares of its Series B Convertible Preferred Stock (the Preferred B) and 43,900,000 common stock purchase warrants (the B-1 Warrants and the B-2 Warrants) to Barron Partners LP, in exchange for gross proceeds to the Company of \$6,420,000. In addition to a cash advisors fee, the Company issued 2,850,000 common stock purchase warrants (the Advisor's Warrants) to Prospect Financial Advisors, LLC. The 2,850,000 Advisor's Warrants are exercisable for a period of five years at an exercise price of \$0.06 per share of common stock to be acquired upon exercise. The 25,000,000 B-1 Warrants are exercisable for a period of five years at an exercise price of \$0.24 per share of common stock

to be acquired upon exercise. The 18,900,000 B-2 Warrants are exercisable for a period of five years at an exercise price of \$0.48 per share of common stock to be acquired upon exercise. In the event of liquidation, dissolution or winding up of the Company preferred stockholders are entitled to be paid prior to any preference of any other payment or distribution.

Additional Warrants

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. At December 31, 2004, the warrant was exercisable.

Note 6: Income Taxes

As of December 31, 2004, Speedemissions had net operating loss (NOL) carryforwards of approximately \$6,046,000 that may be used to offset future taxable income. The NOL carryforwards will expire at various dates through 2024.

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. However, as a result of the consolidation of the financial statements of the June 30, 2005, acquired company, Mr. Sticker, the Company's condensed consolidated balance sheet presents \$23,960 and \$49,512 in, respectively, a deferred tax asset and a deferred tax liability. The deferred tax liability resulted from temporary differences between the financial reporting basis and tax basis of fixed assets. The deferred tax asset resulted from net operating loss carryforwards.

Note 7: Consulting Agreements

In connection with the June 16, 2003 acquisition of Speedemissions by SKTF, Speedemissions entered into a consulting agreement with V2R. 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. 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. During the six months ended June 30, 2005 and 2004, the Company paid a total of approximately \$7,500 and \$40,100, respectively, under the consulting agreement. Effective June 30, 2005, this agreement was terminated by mutual consent of V2R and the Company.

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. 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 the public relations firm. During the six months ended June 30, 2004, the Company recognized approximately \$142,000 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. During the six months ended June 30, 2004, the Company recognized \$51,000 in general and administrative expenses related to this agreement.

On February 25, 2004, the Company issued 50,000 shares of its common stock for services rendered during the three months ended March 31, 2004, recording an expense of \$33,500 during that period.

Effective November 5, 2004, the Company entered into an agreement with an equity research services firm to issue stock in exchange for consulting services to be rendered by the equity research services firm. The Company issued, on November 5, 2004, a total of 312,500 shares of its common stock, under the terms of this agreement. During the six months ended June 30, 2005, the Company recognized approximately \$38,500 in general and administrative expenses related to this agreement.

On January 18, 2005, we issued a total of 250,000 shares of our common stock, restricted in accordance with Rule 144, to two consultants for services rendered during the year ended December 31, 2004. The issuances were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, and the shareholders were sophisticated purchasers.

On February 22, 2005, we issued a total of 250,000 shares of our common stock, restricted in accordance with Rule 144, to Calabria Advisors, LLC, an entity controlled by Mr. Richard A. Parlontieri, our President and a Director. Calabria Advisors, LLC provides us with consulting services. The issuances were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, and the shareholder is a sophisticated investor and familiar with our operations. During the three months ended March 31, 2005, the Company recognized \$75,000 in general and administrative expenses related to this agreement.

On June 17, 2005, we issued a total of 250,000 shares of our common stock, restricted in accordance with Rule 144, to Calabria Advisors, LLC, an entity controlled by Mr. Richard A. Parlontieri, our President and a Director. Calabria Advisors, LLC provides us with consulting services. The issuances were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, and the shareholder is a sophisticated investor and familiar with our operations. During the three months ended June 30, 2005, the Company recognized \$58,750 in general and administrative expenses related to this agreement.

Note 8: Goodwill

As discussed in Note 1, the Company made one acquisition during the quarter ended June 30, 2005. The acquisition all of the outstanding common stock of Mr. Sticker, Inc. (Mr. Sticker) resulted in the recording of goodwill of \$2,886,354. The following table provides details of the acquisition:

Mr. Sticker

Assets acquired	
Current assets	\$ 51,588
Equipment	292,500
Other assets	11,675
Goodwill	2,886,354
	\$ 3,242,117
Purchase price	
Cash	\$ 3,100,000
Current liabilities	49,605
Deferred tax liability	49,512
Common stock	43,000
	\$ 3,242,117

The Company made the above acquisition to increase its market share in the Houston, Texas area and reduce average overhead costs per store by acquiring six (6) locations, which could be controlled by a local management team, using existing resources. These circumstances were the primary contributing factors for the recognition of goodwill as a result of this acquisition.

Note 9: Contingencies

In April 2005, a lawsuit was filed against us by Weingarten Realty Investors in the U.S. District Court of Harris County, Texas, case number 2005-25671. The Complaint alleges breach of contract arising out of a real property lease in Texas for two testing sites that were to be built. The case does not allege specific damages, although the total of all monthly payments under the two leases is approximately \$516,000. We filed an Answer to the Complaint, and we are in discussions to settle the matter.

We are not a party to or otherwise involved in any other legal proceedings.

In the ordinary course of business, we may from time to time be 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, other than as set forth herein, matters currently pending or threatened against us are not expected to have a material adverse effect on our financial position or results of operations.

Note 10: Subsequent Events

On July 1, 2005, the Company received and deposited to its cash account \$2,746,400, which represented the balance of the cash proceeds from the June 30, 2005 sale of 2,500,000 shares of its Series B Convertible Preferred Stock.

On June 30, 2005, we entered into a Preferred Stock Purchase Agreement (the "Agreement") with Barron Partners LP (the "Investor") pursuant to which the Inves