Goodman Global Inc
Form S-1/A
April 05, 2006
Table of Contents

As filed with the Securities and Exchange Commission on April 5, 2006

Registration No. 333-131597

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 5

TO

FORM S-1

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

GOODMAN GLOBAL, INC.

(Exact names of registrants as specified in its charter)

Delaware	**3585**	**20-1932219**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

2550 North Loop West, Suite 400

Houston, Texas 77092

(713) 861-2500

(Address, including zip code, and telephone number, including area code,

of each of the registrants principal executive offices)

Charles A. Carroll

President and Chief Executive Officer

Goodman Global, Inc.

2550 North Loop West, Suite 400

Houston, Texas 77092

(713) 861-2500

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration

statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated April 5, 2006

PRELIMINARY PROSPECTUS

23,529,411 shares

Common stock

This is an initial public offering of shares of common stock by Goodman Global, Inc. We are offering 20,917,647 shares of our common stock, and the selling shareholders identified in this prospectus are selling an additional 2,611,764 shares. We will not receive any of the proceeds from the sale of shares by the selling shareholders.

Prior to the offering, there has been no public market for our common stock. It is currently estimated that the initial public offering price per share of our common stock will be between $16.00 and $18.00. We have applied to list our common stock for quotation on the New York Stock Exchange under the symbol GGL.

	Per share	Total
Initial public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to Goodman Global, Inc.	$	$
Proceeds, before expenses, to selling shareholders	$	$

Certain shareholders have granted the underwriters an option for a period of 30 days to purchase up to 3,529,411 shares of common stock. We will not receive any of the proceeds from the sale of shares by the selling shareholders.

Investing in our common stock involves a high degree of risk. See Risk factors beginning on page 10.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to investors on , 2006.

JPMorgan **Merrill Lynch & Co.** **Goldman, Sachs & Co.**

Credit Suisse **Deutsche Bank Securities** **Lehman Brothers** **KeyBanc Capital Markets**

, 2006

Table of Contents

Table of Contents

Table of contents

You should rely only on the information contained in this prospectus or in any related free writing prospectus. We have not authorized anyone to provide you with information different from that contained in the prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted.

Table of Contents

Prospectus summary

This summary highlights important information about our business contained elsewhere in this prospectus. Because this is only a summary, it does not contain all of the information that may be important to you. Please review this prospectus in its entirety, including Risk factors, Management s discussion and analysis of financial condition and results of operations, and our consolidated financial statements and the related notes, before you decide to invest. Unless otherwise noted, the terms company, we, us and our refer to Goodman Global, Inc., a Delaware corporation, and its consolidated subsidiaries.

Our company

We are the second largest domestic manufacturer of heating, ventilation and air conditioning, or HVAC, products for residential and light commercial use based on unit sales. Our activities include engineering, manufacturing, assembling, marketing and distributing an extensive line of HVAC and related products. Our products are predominantly marketed under the Goodman® and Amana® brand names. Goodman® is one of the leading HVAC brands in North America and caters to the large segment of the market that is price sensitive and desires reliable and low-cost climate comfort, while our premium Amana® brand includes enhanced features such as higher efficiency and quieter operation. For the year ended December 31, 2005, we generated net sales of $1,565.4 million, an 18.8% increase as compared to 2004 net sales.

We currently sell our products through a North American distribution network with more than 700 total distribution points comprised of 136 company-operated distribution centers and approximately 140 primarily exclusive independent distributors selling our products in more than 600 of their locations. For the year ended December 31, 2005, approximately 60% of our net sales were made through company-operated distribution centers and our direct sales force with the remainder made through independent distributors. Our company-operated distribution centers in key states such as Texas, California, Arizona, Nevada and Florida, provide us direct access to large and fast growing regions in North America.

Industry overview

The U.S. residential and light commercial HVAC industry is estimated at approximately $9 billion in annual sales and 11 million units shipped in 2004. We estimate that replacement products currently account for approximately 70% of industry sales, as older units within the large existing base of homes approach the end of their useful lives. The U.S. residential HVAC industry possesses several unique and appealing characteristics, including: (i) a consolidated and stable manufacturing base with the top five domestic manufacturers accounting for over 80% of unit sales; (ii) a fragmented two-tier distribution system consisting of both manufacturer-owned and independent distributors and contractors that sell and install the products for the consumer; (iii) the integral role of contractors in the consumer decision making process; (iv) high switching costs for contractors who have customized their operations to a specific brand to maximize efficiency; and (v) limited exposure to foreign imports due to high shipping costs, low direct-labor content and differences in consumer preferences for single room HVAC systems abroad versus central systems domestically.

The key legislation governing the HVAC industry is the National Appliance Energy Conservation Act of 1987 and related regulations from the U.S. Department of Energy, or DOE.

1

Table of Contents

Energy efficiency in air conditioning products is measured by a Seasonal Energy Efficiency Rating, or SEER. Effective January 23, 2006, the federally mandated minimum efficiency standard for central air conditioners and heat pumps manufactured in the United States increased from 10 to 13 SEER, a regulatory change we actively supported. For the year ended December 31, 2004, approximately 90% of industry unit sales were from products that were below 13 SEER.

Our competitive strengths

We believe our competitive strengths include:

Industry Leader. We are the second largest domestic manufacturer of HVAC products for residential and light commercial use based on unit sales. We are a leader in the value sector and have a strengthening position in the premium sector.

Low-Cost, Value Leader Through Efficient Manufacturing. We believe we are one of the lowest cost manufacturers in the HVAC industry. Our engineering and design capabilities, lean manufacturing processes, high workforce productivity and raw material sourcing capabilities allow us to minimize costs while maintaining high product quality.

Well Positioned to Benefit from New 13 SEER Standard. We believe our low-cost manufacturing structure and value-brand position in the market is an advantage as the industry shifts to the generally higher priced 13 SEER federally mandated minimum efficiency standard for central air conditioners and heat pumps. With this shift, we believe consumers will become more price sensitive and the value sector will expand as a proportion of the total HVAC market on a unit basis. As a result, we will have a significant opportunity to grow our business and capture additional market share.

Proprietary Distribution Network. Our proprietary distribution network enables us to maintain close relationships with contractors, effectively communicate our selling proposition, capture incremental distribution margins and better manage inventory. Since January 2004, we opened 44 new sites resulting in an approximate 48% increase in our company-operated distribution center base.

Broad, High-Quality Product Line. We manufacture and market an extensive line of products, including split-system air conditioners and heat pumps, gas furnaces, package units, air handlers, package terminal air conditioners, evaporator coils and accessories. Our products feature up-to-date heat transfer technology and are designed to meet an increasing preference for higher efficiency products.

Strong and Extensive Independent Distributor Network. Our network of over 140 independent distributors, substantially all of whom are exclusive distributors, provides us access to major sales areas not addressed by our company-operated distribution centers. We utilize a consignment strategy with a majority of our independent distributors which allows us to place finished goods directly into the market to meet current demand without burdening our distributors with inventory carrying costs.

Consistent, Strong Cash Flow. We believe the level of our earnings combined with our modest capital expenditure and limited working capital requirements result in the generation of significant free cash flow. In addition, as a result of the acquisition of our business in 2004, we have realized a significant step-up in the tax basis of our assets which is expected to result in a substantial amount of incremental annual tax deductions over the next 14 years.

Proven and Motivated Management Team. Our management team has significant HVAC industry experience and a strong track record of success. The senior management team led by Charles Carroll has over 110 years of industry and related experience.

Our strategy

We intend to increase operating profits and cash flows by continuing to strengthen our position in the residential and light commercial HVAC industry. Key elements of our strategy include the following:

Capitalize on Growth Opportunities from 13 SEER Transition. We have been designing and selling cost-effective and competitive 13 SEER products for more than ten years, and our low-cost leadership position enables us to price our products at a significant discount to our competition. Generally, 13 SEER products sell at a significant premium compared to 10 SEER products, and we expect the change in minimum efficiency standards to increase our average unit selling price as well as overall industry revenue. We have previously been successful increasing our unit volume market share during periods of transition to higher federally mandated minimum efficiency standards.

Maintain Low-Cost Leadership Position. Our value proposition is driven by low-cost design and lean manufacturing processes. We intend to maintain our cost leadership position by continuing to design low-cost products, increasing production efficiencies, improving our raw material and component sourcing and reducing our working capital investment, overhead and other expenses.

Realize Benefits of Recent Distribution Center Openings and Further Increase Coverage Density. As new distribution centers opened since January 2004 continue to mature, we believe we will increase our net sales and profitability without significant incremental capital expenditures. We plan to opportunistically expand our company-operated distribution center footprint in targeted North American markets and grow our market share.

Strengthen Independent Distributor Network. We maintain strong relationships with an extensive independent distributor network, which provides us efficient access to certain geographies not addressed by our company-operated distribution centers. We employ a number of programs to provide appropriate incentives to our independent distributors, while avoiding expensive brand marketing campaigns.

Continue to Enhance Brand Awareness and Understanding of Goodman Value Proposition to Contractors. We maintain a continuous effort to educate contractors about the quality of our product line and the economic benefits they can receive by choosing our products. We believe that contractors become increasingly loyal as they become accustomed to the installation and service of a particular product and brand.

Risks related to our business

Our ability to execute our strategy is subject to risks, including those that are generally associated with the HVAC industry. For example, weather fluctuations may adversely affect our operating results and our ability to maintain our sales volume. Our operations may be adversely affected by

Table of Contents

increased competition and technological changes, significant increases in the cost of raw materials and components, a decline in our relations with key distributors, increased product liability and product warranty claims, costs of complying with environmental and other regulatory authorities and labor disputes with our employees. These and other factors described in this prospectus under Risk Factors may limit our ability to successfully execute our business strategy.

Recapitalization and recent financings

On December 23, 2004, Apollo Management, L.P., or Apollo, through its affiliate, Frio Holdings LLC, acquired our business from Goodman Global Holdings, Inc., a Texas corporation, which we refer to as the Seller, pursuant to which we acquired all of the equity interests of the direct and indirect operating subsidiaries held by the Seller and substantially all of the assets and liabilities of the Seller, other than certain excluded assets and certain excluded liabilities. We refer to this transaction throughout this prospectus as the Acquisition.

In connection with the Acquisition, affiliates of Apollo, certain trusts related to members of the Goodman family, which we refer to as the Goodman family trusts, and certain members of our senior management contributed approximately $477.5 million in cash to us in exchange for equity, which consisted of $225.0 million of our 9.5% Series A Cumulative Senior Redeemable Exchangeable Preferred Stock, or the Series A Preferred Stock, and $252.5 million of our common stock. This amount was in turn contributed to our subsidiary, Goodman Global Holdings, Inc., or Goodman Global Holdings, as common equity, which we refer to as the Equity Contribution. The Goodman family trusts have invested approximately $101.0 million and members of our senior management have invested approximately $18.2 million in us. In exchange for the Equity Contribution, affiliates of Apollo, the Goodman family trusts and certain members of our senior management received a combination of our common stock and our Series A Preferred Stock. On December 23, 2004, in connection with the Acquisition, we issued $250.0 million in aggregate principal amount of Senior Floating Rate Notes due 2012, or floating rate notes, and $400.0 million in aggregate principal amount of 7 7/8% Senior Subordinated Notes due 2012, or fixed rate notes, in a private placement under Rule 144A and Regulation S of the Securities Act which, together, we refer to as the December notes offering. In connection with the December notes offering, we also entered into senior secured credit facilities which, together with the Acquisition, Equity Contribution and the December notes offering, we refer to as the Transactions.

Additional information

Our principal executive offices are located at 2550 North Loop West, Suite 400, Houston, Texas 77092. Our telephone number is (713) 861-2500. Our website address is *http://www.goodmanglobal.com.* Information on our website is not considered part of this prospectus.

Table of Contents

The offering

Shares of common stock offered by us	20,917,647 shares
Shares of common stock offered by the selling shareholders	2,611,764 shares
Common stock to be outstanding after this offering	68,889,837 shares
Use of proceeds	We estimate that the net proceeds to us of this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately $330.2 million. We intend to use all of the net proceeds to (i) redeem all of our outstanding Series A Preferred Stock with an aggregate liquidation preference and accrued and unpaid dividends of approximately $255.5 million and (ii) redeem up to $70.7 million in aggregate principal amount of our floating rate notes at a price of 102% of the principal amount thereof plus accrued and unpaid interest up to June 15, 2006, the redemption date. We will not receive any of the proceeds from the sale of common stock by the selling shareholders. See Use of proceeds.
Dividends	We have never paid any dividends on our common stock and do not anticipate paying any dividends on our common stock in the foreseeable future. See Dividend policy.
Listing	We have applied to have our common stock listed on the New York Stock Exchange under the trading symbol GGL.

The number of shares of common stock to be outstanding after this offering is based on 47,972,190 shares of common stock outstanding as of March 15, 2006, and excludes 4,650,935 shares of common stock issuable upon exercise of outstanding stock options as of March 15, 2006 (of which options to acquire 1,360,610 shares of common stock will be vested upon consummation of this offering).

Except as otherwise indicated, all information in this prospectus:

- gives effect to our amended and restated certificate of incorporation, which we will file immediately prior to the completion of this offering, effecting a 7.580345-for-1 stock split of our outstanding common stock;
- assumes an initial public offering price of $17.00 per share, the midpoint of the offering range set forth on the cover of this preliminary prospectus; and
- assumes no exercise by the underwriters of their option to purchase 3,529,411 shares of our common stock from the selling shareholders in this offering to cover over-allotments.

Table of Contents

Benefits to affiliates

The Goodman family trusts and Frio Holdings LLC, an affiliate of Apollo, are selling shareholders in this offering. The net proceeds to the Goodman family trusts and Frio Holdings LLC, from the sale of shares in this offering after deducting underwriting discounts, will be approximately $9.2 million and $29.7 million, respectively. In addition, Frio Holdings LLC, the Goodman family trusts and certain members of our senior management will receive approximately $255.5 million in connection with the redemption of our outstanding Series A Preferred Stock with the net proceeds from the sale of shares by us. Messrs. Berg, Martinez and Civale, each affiliates of Apollo, and Mr. Goodman, an affiliate of the Goodman family trusts, are each directors on our board of directors and each approved this offering.

Risk factors

Before making an investment in our common stock, you should consider carefully the information included in the Risk factors section beginning on page 10 of this prospectus, as well as the other information contained in this prospectus.

Table of Contents

Summary consolidated financial data

The following table presents our summary consolidated financial data. The following summary consolidated financial data should be read in conjunction with, and is qualified by reference to, our Management s discussion and analysis of financial condition and results of operations and our consolidated financial statements and the notes included elsewhere in this prospectus, as well as other financial information included elsewhere in this prospectus.

The consolidated statement of operations data for each of the three years in the period ended December 31, 2005 and the consolidated balance sheet data as of December 31, 2004 and 2005 have been derived from our audited consolidated financial statements included elsewhere in this prospectus, and have been prepared in accordance with accounting principles generally accepted in the United States, which we refer to throughout this prospectus as GAAP. The 2004 financial data is a combination of the Predecessor and Successor statements disclosed in our consolidated financial statements except for earnings per share data which is derived directly from our consolidated statements.

	Year ended December 31,		
	2003	**2004**	**2005**
	(dollars in thousands, except share data)		
Consolidated statement of operations data:			
Sales, net(1)	$ 1,192,671	$ 1,317,580	$ 1,565,406
Cost of goods sold	915,272	1,024,426	1,243,408
Selling, general and administrative expenses	147,687	220,551	170,077
Depreciation and amortization expense	14,851	18,887	37,717
Operating profit	114,861	53,716	114,204
Interest expense, net	26,081	12,478	74,213
Other income, net	(331)	(1,406)	(706)
Earnings before income taxes	89,111	42,644	40,697
Provision for (benefit from) income taxes	1,745	(5,049)	15,817
Net income	$ 87,366	$ 47,693	$ 24,880
Less: Preferred stock dividend		528	22,512
Net income available to common shareholders	$ 87,366	$ 47,165	$ 2,368
Pro forma tax expense(2)	$ (32,563)	$ (21,069)	
Pro forma net income available to common shareholders(2)	$ 54,803	$ 26,096	$ 2,368

Table of Contents

	Year ended December 31,		
	2003	2004	2005
	(dollars in thousands, except share data)		
Per share data:			
Earnings per share			
Basic			$ 0.05
Diluted			$ 0.05
Pro forma tax effect(2)			$ 0.05
Weighted average shares outstanding			
Basic			47,931,770
Diluted			48,182,096
As adjusted statement of operations data:(3)			
As adjusted net income			$ 15,072
As adjusted earnings per share			
Basic			$ 0.22
Diluted			$ 0.22
As adjusted weighted average shares outstanding			
Basic			68,849,417
Diluted			69,099,743
Statement of cash flows data:			
Net cash provided by (used in) operating activities	$ 150,807	$ (18,558)	$ 105,519
Net cash used in investing activities	(811)	(1,477,622)	(24,957)
Net cash provided by (used in) financing activities	(167,856)	1,494,677	(60,639)
Other financial data:			
EBITDA(4)(5)	$ 130,043	$ 74,009	$ 152,627
Capital expenditures	$ 16,801	$ 27,772	$ 28,806

	As of December 31, 2005	
	Actual	As adjusted(6)
	(dollars in thousands)	
Consolidated balance sheet data (at period end):		
Cash and cash equivalents	$ 23,779	$ 23,779
Total assets	1,621,537	1,627,466
Total debt, including current portion	961,375	899,950
Redeemable preferred stock	225,570	
Shareholders equity	107,815	424,020

(1) Sales are presented net of certain rebates paid to customers. See Management s discussion and analysis of financial condition and results of operations and the notes to our consolidated financial statements appearing elsewhere in this prospectus.

(2) Represents the estimated tax effect on our results of operations in connection with the Acquisition. The predecessor company was incorporated under Subchapter S of the Internal Revenue Code with substantially all corporate earnings taxed at the shareholder level. The successor company is incorporated under Subchapter C of the Internal Revenue Code, and thus we have adjusted the income tax effect. The

tax rate used for pro forma purposes as a C corporation is 38.5%, which has been applied to earnings before income taxes.

(3) The as adjusted statement of operations data gives effect to this offering, at a price of $17.00 per share, and the use of proceeds therefrom, and the payment of $16.0 million to Apollo in connection with the termination of our management agreement upon consummation of this offering, as if this offering and the payment to Apollo was consummated at the beginning of the fiscal year ended December 31, 2005.

Set forth below is an unaudited reconciliation of net income to as adjusted net income:

	Year ended December 31, 2005
	(dollars in thousands)
Net income	$ 24,880
Adjustment to increase selling, general and administrative expenses(a)	(16,000)
Adjustment to decrease interest expense, net(b)	52
Adjustment to benefit from income taxes	6,140
As adjusted net income	$ 15,072

Table of Contents

(a) The increase in selling, general and administrative expenses reflects a $16.0 million non-recurring fee paid to Apollo in connection with the termination of our management agreement upon consummation of this offering. Net income also includes a $2.0 million fee for the annual management fee paid to Apollo during 2005.

(b) The decrease in interest expense reflects the decrease in interest cost of $4.4 million as a result of this offering and the use of proceeds to pay down our floating rate notes, net of the write off of deferred financing costs of $2.8 million and the premium paid to redeem the floating rate notes of $1.5 million.

(4) EBITDA consists of earnings before interest, taxes and depreciation and amortization. EBITDA is a measure commonly used in the HVAC industry, and we present EBITDA to enhance your understanding of our operating performance. We use EBITDA as one criterion for evaluating our performance relative to that of our peers. We believe that EBITDA is an operating performance measure, and not a liquidity measure, that provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. However, EBITDA is not a measurement of financial performance under GAAP, and our EBITDA may not be comparable to similarly titled measures of other companies. You should not consider our EBITDA as an alternative to operating or net income, determined in accordance with GAAP, as an indicator of our operating performance, or as an alternative to cash flows from operating activities, determined in accordance with GAAP, as an indicator of cash flows, or as a measure of liquidity.

Set forth below is an unaudited reconciliation of net income to EBITDA.

	Year ended December 31,		
	2003	**2004**	**2005**
	(dollars in millions)		
Net income	$ 87.4	$ 47.7	$ 24.9
Income tax expense (benefit)	1.7	(5.1)	15.8
Interest expense, net	26.1	12.5	74.2
Depreciation and amortization	14.8	18.9	37.7
EBITDA	$ 130.0	$ 74.0	$ 152.6

(5) EBITDA for each of the years ended December 31, 2003, 2004 and 2005 was affected by the charges set forth below:

	Year ended December 31,		
	2003	**2004**	**2005**
	(dollars in millions)		
Non-recurring transaction expenses(a)		$ 68.8	
Non-recurring, non-cash charge in connection with inventory step-up(b)		$ 4.4	$ 39.6
Non-recurring product-related expense accrual(c)	$ 15.0	$ (10.0)	
Monitoring fee(d)			$ 2.0
Non-recurring supplemental incentive bonuses		$ 4.0	

(a) Non-recurring transaction expenses represent expenses attributable to incentive compensation fees and transaction fees incurred in the fourth quarter of 2004.

(b) Non-recurring, non-cash charge in connection with inventory step-up represents non-recurring expenses incurred in the fourth quarter of 2004 and the first quarter of 2005 related to the effect of the inventory valuation step-up resulting from the Acquisition.

(c) Represents the establishment of a reserve for a non-recurring product-related expense accrual and the subsequent partial reversal of such reserve in September 2004.

(d) Represents the annual monitoring fee to Apollo.

See Management s discussion and analysis of financial condition and results of operation.

(6) The as adjusted consolidated balance sheet data reflects the balance sheet data as of December 31, 2005, adjusted for this offering and the use of proceeds therefrom. A $1.00 increase (decrease) in the assumed initial public offering price of $17.00 per share would increase (decrease) each of cash and cash equivalents, and shareholders equity by $20.9 million, assuming the number of shares offered by us, as set forth on the cover page of this preliminary prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Table of Contents

Risk factors

Participation in our offering of common stock involves a high degree of risk. You should carefully consider the following factors, in addition to the other information contained in this prospectus, in deciding whether to participate in our offering of common stock. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include those discussed below.

Risks related to our business

Changes in weather patterns and seasonal fluctuations may adversely affect our operating results.

Weather fluctuations may adversely affect our operating results and our ability to maintain our sales volume. Our operations may be adversely affected by unseasonably warm weather in the months of November to February and unseasonably cool weather in the months of May to August, which has the effect of diminishing customer demand for heating and air conditioning and decreasing our sales volumes. Many of our operating expenses are fixed and cannot be reduced during periods of decreased demand for our products. Accordingly, our results of operations will be negatively impacted in quarters with lower sales due to such weather fluctuations. In addition, our sales volumes and operating results in certain regions can be negatively impacted during inclement weather in these regions. For example, during the summer of 2004, several hurricanes and other tropical weather systems struck the southeastern United States resulting in an estimated $6.2 million reduction in our operating profit for 2004.

In addition, our quarterly results may vary significantly. Although there is demand for our products throughout the year, in each of the past three years approximately 55% to 58% of our total sales occurred in the second and third quarters of the fiscal year. Our peak production occurs in the first and the second quarters in anticipation of our peak sales quarters. Therefore, quarterly comparisons of our sales and operating results should not be relied on as an indication of future performance, and the results of any quarterly period may not be indicative of expected results for a full year.

Increased competition and technological changes and advances may reduce our market share and our future sales.

The production and sale of HVAC equipment by manufacturers is highly competitive. According to industry sources, the top five domestic manufacturers (including us) represented approximately 80% of the unit sales in the U.S. residential and light commercial HVAC market in 2004. Our four largest competitors in this market are Carrier Corporation, American Standard (which includes Trane® and American Standard® brand products), Lennox International, Inc. and Rheem Manufacturing Company. Several of our competitors may have greater financial and other resources than we have. A number of factors affect competition in the HVAC industry, including an increasing emphasis on the development of more efficient HVAC products. Existing and future competitive pressures may materially and adversely affect our business, financial condition or results of operations, including pricing pressure if our competitors improve their cost structure. In addition, our company-operated distribution centers face competition from independent distributors and contractors owned by our competitors, some of whom may be able to provide their products or services at lower prices than we can. We may not be able to compete successfully against current and future competition and current and future competitive pressures faced by us may adversely affect our profitability and performance.

Table of Contents

There is currently an effort underway in the United States by several companies to purchase independent distributors and contractors and consolidate them into large enterprises. These consolidated enterprises may be able to exert pressure on us to reduce prices. Additionally, these new enterprises tend to emphasize their company name, rather than the brand of the manufacturer, in their promotional activities, which could lead to dilution of the importance and value of our brand names. Future price reductions and any brand dilution caused by the consolidation among HVAC distributors and contractors could have an adverse effect on our business, financial condition and results of operations.

Significant increases in the cost of raw materials and components have, and may continue to, reduce our operating margins. In addition, a decline in our relationships with key suppliers may have an adverse effect on our business.

Our operations depend on the supply of various raw materials and components, including steel, copper, aluminum, refrigerants, motors and compressors, from domestic and foreign suppliers. We do not typically enter into long-term supply contracts for raw materials and components. In addition, we generally do not hedge against our supply requirements. However, our suppliers may discontinue to provide products to us at attractive prices, and we may be unable to obtain such products in the future from these or other providers on the scale and within the time frames we require. If a key supplier were unable or unwilling to meet our supply requirements, we could experience supply interruptions and/or cost increases which (to the extent that we are not able to find alternate suppliers or pass these additional costs onto our customers) could adversely affect our results of operations and financial condition. To the extent any of our suppliers experiences a shortage of components that we purchase, we may not receive shipments of those components and, if we were unable to obtain substitute components on a timely basis, our production would be impaired. For example, in the second quarter of 2004 we experienced supply interruptions for steel, copper and aluminum. These supply interruptions resulted in periodic production disruptions and higher transportation costs.

In 2004, commodity prices rose significantly to levels well above prices seen in the past decade. These commodity cost increases negatively affected our net income in 2004. Effective September 1, 2004, we increased prices by up to 5% on a majority of our products in response to these increases in commodity costs. Effective January 1, 2005, we further increased prices up to 7% on the majority of our products. Commodity costs have continued to increase. To address these increases, we announced a price increase of 5% effective April 1, 2006, with respect to certain of our products. We believe our price increases will allow us to recapture lost profit margin. However, these price increases may reduce demand for our products. A continued high level of commodity prices or a further increase in commodity prices could have a material adverse effect on our results of operations. In addition, we may not be able to further increase the price of our products or reduce our costs to offset the higher commodity prices.

A decline in our relations with our key distributors may adversely affect our business.

Our operations also depend upon our ability to maintain our relations with our independent distributors. While we generally enter into contracts with our independent distributors, these contracts typically last for one year and can be terminated by either party upon 30 days   notice. If our key distributors are unwilling to continue to sell our products or if our key distributors merge with or are purchased by a competitor, we could experience a decline in sales. If we are unable to replace such distributors or otherwise replace the resulting loss of sales, our business and results of operations could be adversely affected. For the year ended December 31, 2005, approximately 40% of our net sales were made through our independent distributors.

Table of Contents

Damage or injury caused by our products could result in material liabilities associated with product recalls or reworks.

In the event we produce a product that is alleged to contain a design or manufacturing defect, we could be required to incur costs involved to recall or rework that product. In September 2004, we initiated a voluntary corrective action plan, or CAP, regarding a discontinued design of certain Amana®, Trane® and American Standard® brand Package Terminal Air Conditioner/Heat Pump, or PTAC, units manufactured by one of our subsidiaries. Under the CAP, we will provide a new thermal limit switch to commercial and institutional PTAC owners. Installation of these switches will be at the commercial or institutional owners expense, except in special and limited circumstances (e.g., financial hardship). Pursuant to the CAP, we will pay the cost of installing the replacement switch for any individual homeowner having a PTAC unit in his/her residence. We have established a reserve relating to the CAP in an amount that we believe is appropriate. The costs required to recall or rework any defective products could be material, which may have a material adverse effect on our business. In addition, our reputation for safety and quality is essential to maintaining our market share. Any recalls or reworks may adversely affect our reputation as a manufacturer of high-quality, safe products and could have a material adverse effect on our results of operations.

We may incur material costs as a result of product liability or warranty claims which would negatively affect our profitability.

The development, manufacture, sale and use of our products involve a risk of product liability and warranty claims, including personal injury and property damage arising from fire, soot, mold and carbon monoxide. We currently carry insurance and maintain reserves for potential product liability claims. However, our insurance coverage may be inadequate if such claims do arise and any liability not covered by insurance could have a material adverse effect on our business. To date, we have been able to obtain insurance in amounts we believe to be appropriate to cover such liability. However, our insurance premiums may increase in the future as a consequence of conditions in the insurance business generally or our situation in particular. Any such increase could result in lower profits or cause the need to reduce our insurance coverage. In addition, a future claim may be brought against us which would have a material adverse effect on us. Any product liability claim may also include the imposition of punitive damages, the award of which, pursuant to certain state laws, may not be covered by insurance. Our product liability insurance policies have limits that if exceeded, may result in material costs that would have an adverse effect on our future profitability. In addition, warranty claims are not covered by our product liability insurance. Any product liability or warranty issues may adversely affect our reputation as a manufacturer of high-quality, safe products and could have a material adverse effect on our business.

Our business could be hurt by economic downturns.

Our business is affected by a number of economic factors, including the level of economic activity in the markets in which we operate. A decline in economic activity in the United States could materially affect our financial condition and results of operation. Sales in the residential and commercial new construction market correlate closely to the number of new homes and buildings that are built, which in turn is influenced by factors such as interest rates, inflation, consumers spending habits, employment rates and other macroeconomic factors over which we have no control. Any decline in economic activity as a result of these factors typically results in a decline in new construction and replacement purchases, which would result in a decrease in our sales volume and profitability.

Table of Contents

The cost of complying with laws relating to the protection of the environment and worker safety may be significant.

We are subject to extensive federal, state, municipal, local and foreign laws and regulations relating to the protection of human health and the environment, including those limiting the discharge of pollutants into the environment and those regulating the treatment, storage, disposal and remediation of, and exposure to, solid and hazardous wastes and hazardous materials. Certain environmental laws and regulations impose strict joint and several liability on potentially responsible parties, including past and present owners and operators of sites, to clean up, or contribute to the cost of cleaning up sites at which hazardous wastes or materials were disposed or released. We are currently, and may in the future be, required to incur costs relating to the investigation or remediation of such sites, including sites where we have, or may have, disposed of our waste. See Business Environmental, health and safety matters.

We believe that we are in material compliance with all current environmental laws and regulations, many of which provide for substantial fines and criminal sanctions for violations. Nonetheless, we expect to incur expenses to maintain such compliance and it is possible that more stringent environmental laws and regulations, more vigorous enforcement or a new interpretation of existing laws and regulations could require us to incur additional costs and penalties. Further, existing or future circumstances, such as the discovery of new or materially different environmental conditions, could cause us to incur additional costs that could have a material adverse effect on our business, financial condition or results of operations.

We are also subject to various federal, state and local laws and regulations relating to worker safety. In October 2004, we reached an agreement with the Occupational Safety and Health Administration, or OSHA, to resolve certain matters identified during an OSHA inspection at our Houston Furnace and Cooling plants. We did not admit any violations of the Occupational Safety and Health Act or OSHA standards, but we did agree, among other things, to address certain issues identified by OSHA during its inspection and to pay OSHA a penalty of $277,000. We have paid the penalty and are currently conducting certain actions required by this settlement, including the installation of certain machine guarding. We expect to make capital expenditures at these and other facilities to improve worker health and safety. Expenditures at these and any other facilities to assure compliance with OSHA standards could be significant, and we may become subject to additional liabilities relating to our facilities in the future. In addition, future inspections at these or other facilities may result in additional actions by OSHA.

Effective January 23, 2006, federal regulations mandated an increase in the minimum SEER from 10 to 13 for central air conditioners and heat pumps manufactured in the United States. The required efficiency levels for our products may be further increased in the future by the relevant regulatory authorities. Any future changes in required efficiency levels or other government regulations could adversely affect our industry and our business.

We also currently use a refrigerant that the United States Environmental Protection Agency, or EPA, is in the process of phasing out. We believe that neither the current regulations limiting refrigerants nor any reasonably anticipated phase-out of refrigerants will have a material adverse impact on our operations. See Business Environmental refrigerant regulation.

Table of Contents

Labor disputes with our employees could interrupt our operations and adversely affect our business.

We are a party to a collective bargaining agreement with the International Association of Machinists and Aerospace Workers and Affiliates that, as of December 30, 2005, represented approximately 30% of our employees. This agreement covers all hourly employees at our manufacturing facility in Fayetteville, Tennessee and is scheduled to expire in December 2009. If we are unable to successfully negotiate acceptable terms with this union, our operating costs could increase as a result of higher wages or benefits paid to union members, or if we fail to reach an agreement with the union, our operations could be disrupted. Either event could have a material adverse effect on our business. In addition, there have been in the past, and may be in

the future, attempts to unionize our non-union facilities. If employees at our non-union facilities are able to unionize in the future, our operating costs could increase. See Business Employees.

Our business operations could be significantly disrupted if we lose members of our management team.

Our success depends to a significant degree upon the continued contributions of our executive officers and key employees, both individually and as a group. For example, we have longstanding relationships with most of our independent distributors. In many cases, these relationships have been formed over a period of years through personal networks involving our key personnel. The loss of these personnel could potentially disrupt these longstanding relationships and adversely affect our business. We have employment agreements with only two members of our senior management. Our future performance will be substantially dependent on our ability to retain and motivate our management. The loss of the services of any of our executive officers or key employees could prevent us from executing our business strategy.

We may be adversely affected by any natural or man-made disruptions to our distribution and manufacturing facilities.

We are a manufacturing company that is heavily dependent on our manufacturing and distribution facilities in order to maintain our business and remain competitive. Any serious disruption to a significant portion of our distribution or manufacturing facilities resulting from fire, earthquake, weather-related events, an act of terrorism or any other cause could materially impair our ability to manufacture and distribute our products to customers. Moreover, we could incur significantly higher costs and longer lead times associated with manufacturing or distributing our products to our customers during the time that it takes for us to reopen or replace damaged facilities. Many of our facilities are located at or near Houston, Texas, which is in close proximity to the Gulf of Mexico. This region is particularly susceptible to natural disruptions, as evidenced by the recent hurricanes in 2004 and 2005. If any of these events were to occur, our financial condition, results of operations and cash flows could be materially adversely affected.

If we are unable to access funds generated by our subsidiaries we may not be able to meet our financial obligations.

Because we conduct many of our operations through our subsidiaries, we depend on those entities for dividends, distributions and other payments to generate the funds necessary to meet our financial obligations. Legal and contractual restrictions in certain agreements governing current and future indebtedness of our subsidiaries, as well as the financial condition and

Table of Contents

operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. All of our subsidiaries are separate and independent legal entities and have no obligation whatsoever to pay any dividends, distributions or other payments to us.

Our business operations could be negatively impacted if we fail to adequately protect our intellectual property rights or if third parties claim that we are in violation of their intellectual property rights.

Our products are marketed primarily under the Goodman®, Amana® and Quietflex® names and, as such, we are dependent on those brand names. Failure to protect these brand names and other intellectual property rights or prevent their unauthorized use by third parties could adversely affect our business. We seek to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as licensing and confidentiality agreements. These protections may not be adequate to prevent competitors from copying or reverse engineering our products, or from developing and marketing products that are substantially equivalent to or superior to our own. In addition, we face the risk of claims that we are infringing third parties intellectual property rights. Any such claim, even if it is without merit, could be expensive and time-consuming; could cause us to cease making, using or selling certain products that incorporate the disputed intellectual property; could require us to redesign our products, if feasible; could divert management time and attention; and could require us to enter into costly royalty or licensing arrangements.

We may lose the right to use the Amana® name which may have an adverse effect on our business.

Under an agreement between the Amana Society and Amana Refrigeration, Inc., Amana Refrigeration, Inc. agreed that it would discontinue the use of the Amana® name in its corporate name or in connection with any other business enterprise if it were ever to abandon manufacturing operations in Amana, Iowa. Maytag purchased the Amana appliance business in July 2001 and now controls the manufacturing operations in Amana, Iowa. We maintained the right to use the Amana® name and trademark under a license agreement with Maytag. Prior to a cessation of such operation or following a decision by Maytag to not maintain trademark registrations for the Amana® name, Maytag has agreed to consult with us and provide reasonable assistance to us so that we may register the Amana® name as a trademark. However, we have no control over Maytag s decision to continue operations at that facility, and if such operations are discontinued, it is possible that we could lose the right to use the Amana® name in connection with our business, which could have a material adverse effect on our business.

Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our senior secured credit facilities, fixed rate notes and floating rate notes.

We now have and will continue to have a significant amount of indebtedness. This indebtedness exposes us to risks that some of our primary competitors, with less outstanding indebtedness, do not face. On December 31, 2005, after giving effect to this offering and the use of proceeds therefrom, we would have had $900.0 million of indebtedness outstanding, excluding approximately $37.2 million of letters of credit and up to $121.8 million of additional indebtedness that may be borrowed under our revolving credit facility.

Table of Contents

Our substantial indebtedness could have important consequences to our business. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our outstanding indebtedness;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional funds.

In addition, our senior secured credit facilities, fixed rate indenture and floating rate indenture contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts. Our indentures and our senior secured credit facilities contain cross-default and cross- acceleration provisions such that an event of default under our indentures or the acceleration of amounts outstanding under our indentures will cause an event of default and/or an acceleration of amounts outstanding under our senior secured credit facilities. If all of our indebtedness was accelerated, it is possible that we will not have sufficient funds at the time of acceleration to repay our indebtedness, which could have a material adverse effect on our ability to continue as a going concern.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, and to fund planned capital expenditures and research and development efforts will depend on our ability to generate cash in the future. This is a risk that some of our primary competitors, with less outstanding indebtedness, do not face. Our future cash flows are dependent on the level of our earnings, our capital expenditure and working capital requirements and the amount of our tax payments. Our ability to generate future cash flows, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Our business may not generate sufficient cash flow from operations and future borrowings may not be available to us under our senior secured credit facilities or otherwise in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before the maturity thereof. In addition, we may be unable to refinance any of our indebtedness, on commercially reasonable terms or at all.

A substantial portion of our indebtedness is at a variable rate of interest, which could increase our interest expense in the event interest rates rise.

Certain of our indebtedness bears interest at rates that fluctuate with changes in certain prevailing interest rates. After giving effect to this offering and the use of proceeds therefrom,

16

a 1% increase or decrease in the interest rate would result in approximately a $2.8 million increase or decrease in our interest expense on our variable rate indebtedness, respectively. If interest rates increase dramatically, we may be unable to meet our debt service obligations.

Risks related to our common stock

There is no existing market for our common stock, and we do not know if one will develop to provide you with adequate liquidity.

Prior to this offering, there has not been a public market for our common stock. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the New York Stock Exchange or otherwise or how liquid that market might become. If an active trading market does not develop, you may have difficulty selling any of our common stock that you buy. The initial public offering price for the common stock will be determined by negotiations between us and the representatives of the underwriters and may not be indicative of prices that will prevail in the open market following this offering. Consequently, you may not be able to sell our common stock at prices equal to or greater than the price you paid in this offering.

The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your common stock at or above the price you paid for your common stock. The market price of our common stock could fluctuate significantly for various reasons, including:

our operating and financial performance and prospects;

our quarterly or annual earnings or those of other companies in our industry;

the public s reaction to our press releases, our other public announcements and our filings with the SEC;

changes in earnings estimates or recommendations by research analysts who track our common stock or the stock of other companies in our industry;

strategic actions by us or our competitors, such as acquisitions or restructurings;

new laws or regulations or new interpretations of existing laws or regulations applicable to our business;

- changes in accounting standards, policies, guidance, interpretations or principles;

- changes in general conditions in the United States and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events; and

- sales of common stock by us or members of our management team.

In addition, in recent years, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our share price.

Table of Contents

Delaware law and our charter documents may impede or discourage a takeover, which could cause the market price of our common stock to decline.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing shareholders. In addition, provisions of our amended and restated certificate of incorporation and bylaws may also make it more difficult for, or prevent a third party from, acquiring control of us without the approval of our board of directors. These provisions include:

- a staggered board of directors;
- the sole power of a majority of our board of directors to fix the number of directors;
- limitations on the removal of directors;
- the sole power of our board of directors to fill any vacancy on our board, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- the ability of our board of directors to designate one or more series of preferred stock and issue preferred stock without shareholder approval; and
- the inability of shareholders to act by written consent or to call special meetings.

Our incorporation under Delaware law, the ability of our board of directors to create and issue a new series of preferred stock and certain other provisions of our amended and restated certificate of incorporation and bylaws could impede a merger, takeover or other business combination involving us or the replacement of our management or discourage a potential investor from making a tender offer for our common stock, which, under certain circumstances, could reduce the market value of our common stock. See Description of capital stock.

We have no plans to pay regular dividends on our common stock, so you may not receive funds without selling your common stock.

We have no plans to pay regular dividends on our common stock. We generally intend to invest our future earnings, if any, to fund our growth. Any payment of future dividends will be at the discretion of our board of directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends, and other considerations that our board of directors deems relevant. Our senior secured credit facilities and the indentures governing our fixed rate notes and our floating rate notes also include limitations on our payment of dividends. Accordingly, you may have to sell some or all of your common stock in order to generate cash flow from your investment. You may not receive a gain on your investment when you sell your common stock and you may lose the entire amount of the investment.

You will suffer immediate and substantial dilution.

If you purchase shares of our common stock in this offering, you will pay more for your shares than the amounts paid by existing shareholders for their shares. You will incur immediate and substantial dilution of $23.97 per share, representing the difference between our net tangible book value (deficit) per share after giving effect to this offering at an assumed initial public offering price of $17.00 per share. Consequently, unless we are able to increase our net tangible book value per share through income from operations or otherwise to $17.00 per share, upon a liquidation of our company at net tangible book value, you would receive less than the price that you paid for shares of our common stock in this offering while our existing shareholders may receive more than the price that they paid for their shares of our common stock. See Dilution.

The requirements of being a public company may strain our resources and distract management.

After the consummation of this offering, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, and the Sarbanes-Oxley Act of 2002. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal control for financial reporting. These requirements may place a strain on our systems and resources. Under Section 302 of the Sarbanes-Oxley Act, as part of our periodic reports, our chief executive officer and our chief financial officer will be required to evaluate the effectiveness of, and to report their conclusions regarding the effectiveness of our disclosure controls and procedures, and to certify that they have done so. In addition, under Section 404 of the Sarbanes-Oxley Act, we will be required to include a report of management on our internal control over financial reporting in our Annual Reports on Form 10-K and our independent public accountants auditing our financial statements must attest to and report on management s assessment of the effectiveness of our internal control over financial reporting. This requirement will first apply to our Annual Report on Form 10-K for our fiscal year ending December 31, 2007. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight will be required. This may divert management s attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. If we are unable to conclude that our disclosure controls and procedures and internal control over financial reporting are effective, or if our independent public accounting firm is unable to provide us with an unqualified report as to the effectiveness of our internal control over financial reporting in future years, investors may lose confidence in our financial reports and our stock price may decline.

Future sales of our common stock in the public market could lower our share price, and the exercise of outstanding stock options and any additional capital raised by us through the sale of common stock may dilute your ownership in us.

We may sell additional shares of common stock in subsequent public offerings. Our amended and restated articles of incorporation will authorize us to issue 275,000,000 shares of common stock, of which 68,889,837 shares will be outstanding upon consummation of this offering. This number includes 23,529,411 shares that we and the selling stockholders are selling in this offering, which may be resold immediately in the public market unless held by affiliates of ours. Of the remaining 45,360,426 shares, substantially all of them are restricted from immediate resale under the lock-up agreements between our current shareholders and the underwriters described in Underwriting, but may be sold into the market in the near future. These shares will become available for sale at various times following the expiration of the lock-up agreements, which, without the prior consent of J.P. Morgan Securities Inc. on behalf of the underwriters, is 180 days after the date of this prospectus (which period could be extended by the underwriters for up to an additional 34 days under certain circumstances). Immediately after the expiration of the 180-day lock-up period, these shares will be eligible for resale under Rule 144 or Rule 701 of the Securities Act, subject to volume limitations and applicable holding period requirements.

Table of Contents

Upon consummation of this offering, options to purchase 4,650,935 shares of our common stock will be outstanding (of which options to acquire 1,360,610 shares of common stock will be vested upon consummation of this offering). Beginning 180 days after the consummation of this offering pursuant to the stockholders agreement, affiliates of Apollo and the Goodman family trusts have certain demand registration rights with respect to the common stock they will retain following the offering. In addition, immediately following this offering, we intend to file a registration statement registering 6,693,839 shares reserved for issuance under the 2004 Stock Option Plan and 2006 Incentive Award Plan under the Securities Act. See Description of capital stock.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Our equity sponsor controls us and its interests may conflict with or differ from your interests as a shareholder.

After the consummation of this offering, our equity sponsor, Apollo, will beneficially own approximately 45% of our common stock. If the underwriters exercise in full their over-allotment option, Apollo will beneficially own approximately 41% of our common stock. Representatives of Apollo will have the ability to prevent any transaction that requires the approval of directors. In addition, Apollo will have the ability to substantially influence all matters requiring shareholder approval, including the election of our directors and the approval of significant corporate transactions such as mergers, tender offers and the sale of all or substantially all of our assets. The interests of Apollo and its affiliates could conflict with or differ from your interests as a holder of our common stock. For example, the concentration of ownership held by Apollo could delay, defer or prevent a change of control of our company or impede a merger, takeover or other business combination which you may otherwise view favorably. Apollo may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. A sale of a substantial number of shares of stock in the future by funds affiliated with Apollo could cause our stock price to decline in the future.

We are a controlled company within the meaning of the New York Stock Exchange rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements.

Upon the closing of this offering, affiliates of Apollo and the Goodman family trusts, as a group, will continue to control a majority of our outstanding common stock pursuant to the terms of the stockholders agreement. As a result, we are a controlled company within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a controlled company and may elect not to comply with certain New York Stock Exchange corporate governance requirements, including:

- the requirement that a majority of the board of directors consist of independent directors;

- the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities;

Table of Contents

- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities; and

- the requirement for an annual performance evaluation of the nominating/corporate governance and compensation committees.

Following this offering, we intend to utilize most of these exemptions. As a result, we will not have a majority of independent directors nor will our nominating/corporate governance and compensation committees consist entirely of independent directors. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

Certain beneficial owners of our voting securities may be required to file an application with and be investigated by the Florida insurance authorities, and the Florida Office of Insurance Regulation may restrict the ability of a beneficial owner to receive any benefit from our voting securities and may require the divestiture of shares of our voting securities.

One of our subsidiaries, AsureCare Corp., a Florida corporation, is licensed as a service warranty association and regulated by the Florida Office of Insurance Regulation. As a Florida-domestic service warranty association, AsureCare Corp. is subject to regulation as a specialty insurer under certain provisions of the Florida Insurance Code. Under applicable Florida law, no person can finally acquire, directly or indirectly, more than 10% of the voting securities of a service warranty association or its controlling company without the written approval of the Florida Office of Insurance Regulation. Accordingly, any person who acquires beneficial ownership of 10% or more of our voting securities will be required by law to apply to the Florida Office of Insurance Regulation for its approval no later than five days after any form of tender offer or exchange offer is proposed, or no later than five days after the acquisition of securities or ownership interest if no tender offer or exchange offer is involved.

The Florida Office of Insurance Regulation may disapprove the acquisition of 10% or more of our voting securities by any person who refuses to apply for and obtain regulatory approval of such acquisition. In addition, if the Florida Office of Insurance Regulation determines that any person has acquired 10% or more of our voting securities without obtaining its regulatory approval, it may order that person to cease the acquisition and divest itself of any shares of our voting securities which may have been acquired in violation of the applicable Florida law. In addition, the Florida Office of Insurance Regulation may assess administrative fines against the purchaser not to exceed $20,000 per willful violation, subject to a cap of $100,000 for violations arising from one transaction. Due to the requirement to file an application with and obtain approval from the Florida Office of Insurance Regulation, purchasers of 10% or more of our voting securities may incur additional expenses in connection with preparing, filing and obtaining approval of the application, and the effectiveness of the acquisition will be delayed pending receipt of approval from the Florida Office of Insurance Regulation, which could take up to 90 days after submission of a complete application.

The Florida Office of Insurance Regulation may also take disciplinary action against AsureCare Corp. s license if it finds that an acquisition made in violation of the applicable Florida law would render the further transaction of its business hazardous to its customers, creditors, stockholders or the public.

Table of Contents

Cautionary notice regarding forward-looking statements

This prospectus contains forward-looking statements. The words believe, expect, anticipate, intend, estimate and other express that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Forward-looking statements also include statements about the following subjects:

- changes in weather patterns and seasonal fluctuations;
- changes to the 13 SEER federally mandated minimum efficiency standard;
- the maturation of our new company-operated distribution centers;
- increased competition and technological changes and advances;
- significant increases in the cost of raw materials and components;
- our relations with our independent distributors; and
- damage or injury caused by our products.

Although forward-looking statements reflect management s good faith beliefs, they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the impact of general economic conditions in the regions in which we do business; general industry conditions, including competition and product, raw material and energy prices; changes in exchange rates and currency values; capital expenditure requirements; access to capital markets and the risks and uncertainties described under Risk factors.

Market and industry information

Unless otherwise indicated, information contained in this prospectus concerning the HVAC industry or market refers to the residential and light commercial sector within the domestic HVAC industry. Our general expectations concerning such industry and its segments and our market position and market share within such industry and its segments are derived from data from various third-party sources. In addition, this prospectus presents similar information based on management estimates. Such estimates are derived from third-party sources as well as data from our internal research and on assumptions made by us, based on such data and our knowledge of the HVAC industry, which we believe to be reasonable. While we are not aware of any misstatements regarding any industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors. See Risk factors.

Table of Contents

Use of proceeds

We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately $330.2 million. We intend to use the net proceeds to (i) redeem all of our outstanding Series A Preferred Stock with an aggregate liquidation preference and accrued and unpaid dividends of approximately $255.5 million, and (ii) redeem up to $70.7 million in aggregate principal amount of our floating rate notes at a price of 102% of the principal amount thereof plus accrued and unpaid interest up to June 15, 2006, the redemption date. The floating rate notes mature on June 15, 2012, and bear interest at a rate equal to LIBOR plus 3.0%.

We will not receive any of the proceeds from the sale of common stock by the selling shareholders.

A $1.00 increase (decrease) in the assumed initial public offering price of $17.00 per share would increase (decrease) the net proceeds to us from this offering by $20.9 million, assuming the number of shares offered by us, as set forth on the cover page of this preliminary prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Dividend policy

We have never paid any dividends on our common stock and do not anticipate paying any dividends on our common stock in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant. Our ability to pay dividends on our common stock is limited by the covenants of our senior secured credit facilities and the indentures governing the fixed rate notes and the floating rate notes, and may be further restricted by the terms of any of our future debt or preferred securities.

Table of Contents

Capitalization

The following table sets forth our cash and cash equivalents and consolidated capitalization as of December 31, 2005 on an actual basis and on as adjusted basis giving effect to (i) this offering and the use of proceeds therefrom and (ii) the payment of $16.0 million to Apollo in connection with the termination of our management agreement upon consummation of this offering.

You should read this table in conjunction with Use of proceeds, Summary consolidated financial data, Management s discussion and analysis of financial condition and results of operations and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	As of December 31, 2005 (dollars in thousands) Actual	As Adjusted(1)
Cash and cash equivalents	$ 23,779	$ 23,779
Debt:		
Long-term debt, including current portion of $3,500		
Senior secured credit facilities:		
Term loan	$ 311,375	$ 311,375
Revolving credit facility(2)		16,000
Floating rate notes	250,000	172,575
Fixed rate notes	400,000	400,000
Total long-term debt, including current portion	961,375	899,950
Preferred stock (9.5% Series A cumulative, par value $0.01; actual, 250,000 shares authorized, 225,570 shares issued and outstanding; as adjusted, none issued or outstanding)	225,570	
Shareholders equity:		
Common stock (par value $0.01; actual, 275,000,000 shares authorized, 47,972,190 shares issued and outstanding; as adjusted, 275,000,000 shares authorized, 68,889,837 shares issued and outstanding)	480	689
Additional Paid-in-capital	108,073	438,017
Retained earnings (deficit)(3)	(2,826)	(16,774)
Accumulated other comprehensive income	2,088	2,088
Total shareholders equity	107,815	424,020
Total capitalization	$ 1,294,760	$ 1,323,970

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $17.00 per share would increase (decrease) each of cash and cash equivalents, additional paid-in capital, total shareholders equity and total capitalization by $20.9 million, assuming the number of shares offered by us, as set forth on the cover page of this preliminary prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

(2) As of December 31, 2005, our revolving credit facility provided for additional borrowings of up to $137.8 million and excludes $37.2 of letters of credit issued and outstanding. We intend to use additional borrowings under our revolving credit facility to pay Apollo approximately $16.0 million in connection with the termination of our management agreement upon the consummation of this offering. See Risk factors.

(3) As adjusted retained earnings reflects (i) the write-off of $4.1 million of deferred financing fees, net of taxes, associated with repayment of the floating notes, including the premium associated with the repurchase, plus accrued and unpaid interest up to June 15, 2006, the redemption date, and (ii) the payment to Apollo of approximately $9.8 million in connection with the termination of our management agreement, net of taxes.

Table of Contents

Dilution

Dilution is the amount by which the offering price paid by the purchasers of the common stock to be sold in this offering will exceed the net tangible book value per share of common stock after the offering. Our net tangible book deficit as of December 31, 2005 was $565.0 million, or $11.78 per share of common stock. We have calculated this amount by:

subtracting our total liabilities from our total tangible assets; and

dividing the difference by the number of shares of common stock outstanding.

If we give effect to the sale of 20,917,647 shares of common stock by us in this offering at the initial public offering price of $17.00 per share after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us, our net tangible book deficit as of December 31, 2005 would have been $480.3 million, or $6.97 per share. This amount represents an immediate dilution of $23.97 per share to new investors. The following table illustrates this dilution per share:

		Per Share
Assumed initial public offering price per share		$ 17.00
Net tangible book deficit as of December 31, 2005(1)	$ (11.78)	
Increase in net tangible book value attributable to this offering	4.81	
Pro forma net tangible book deficit after this offering		(6.97)
Dilution to new investors		$ 23.97

(1) Net tangible book deficit is calculated by subtracting goodwill, identifiable intangibles, deferred tax assetmpany 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 September 30, 2004	Quarter Ended September 30, 2003	Percentage Change	Quarter Ended December 31, 2003
Revenue	$ 758,008	$ 146,715	417%	$ 145,213
Cost of Emission Certificates	233,681	43,581	436%	43,115
General & Administrative Expenses	1,572,602	490,962	220%	600,237
Loss from Operations	$ (1,048,275)	$ (387,828)	170%	$ (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 $1,572,602, an increase of $1,081,640, or 220% 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
Cost of 855,000 shares issued for anti-dilution provisions		453,150
Discount from market price on 785,858 common shares issued in private placement		148,597
Increased depreciation and maintenance expense associated with fourteen additional emissions testing stations		61,879
	$	936,958

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 Ended September 30, 2004	Nine Months Ended September 30, 2003	Percentage Change	Nine Months Ended December 31, 2003
Revenue	$ 2,122,138	$ 467,735	354%	$ 448,828
Cost of Emission Certificates	649,432	130,380	398%	128,096
General & Administrative Expenses	4,741,659	1,181,133	301%	1,549,939
Loss from Operations	$ (3,268,953)	$ (843,778)	287%	$ (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 $4,741,659, an increase of $3,560,526, or 301% 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
Cost of 855,000 shares issued for anti-dilution provisions		453,150
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
Discount from market price on 1,600,144 common shares issued in private placement		332,883
Increased depreciation and maintenance expense associated with fourteen additional emissions testing stations		131,503
	$	3,073,868

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 September 30, 2004	Quarter Ended September 30, 2003	Percentage Change	Quarter Ended December 31, 2003
Interest Expense	$ 13,793	$ 39,796	(65)%	$ 33,606
Income Tax Benefit	-	-	-	-
Net Loss	(1,062,068)	(427,624)	148%	(531,745)
Basic and Diluted Loss per Share	(0.05)	(0.04)	25%	(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 $1,062,068 or $0.05 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 $634,444 increase in net loss for the quarter ended September 30, 2004 was primarily due to increased costs related to stock, capital raise 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 Ended September 30, 2004		Nine Months Ended September 30, 2003	Percentage Change		Nine Months Ended December 31, 2003
Interest Expense	$	49,633	$	103,670	(52)%	$	108,839
Income Tax Benefit		-		-	-		-
Net Loss		(3,318,586)		(947,448)	250%		(1,333,046)
Basic and Diluted Loss per Share		(0.16)		(0.11)	45%		(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 $3,318,586 or $0.16 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 $2,371,138 increase in net loss for the nine months ended September 30, 2004 was primarily due to increased costs related to stock, capital raise 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 September 30, 2004	As of December 31, 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 $3,318,586, partially offset by non-cash stock related expenses of $2,157,860, 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.

30

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.

(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.

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: November 12, 2004

Speedemissions, Inc.

By: /s/ Richard A. Parlontieri

Richard A. Parlontieri, President

By: /s/ William Klenk

William Klenk, Chief Financial Officer

32