

SPEDEMISSIONS INC
Form 10-Q
May 14, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010

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

Commission file number: 000-49688

Speedemissions, Inc.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

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

Edgar Filing: SPEEDEMISSIONS INC - Form 10-Q

1015 Tyrone Road

Suite 220

Tyrone, GA

(Address of principal executive offices)

30290

(Zip Code)

Issuer's telephone number (770) 306-7667

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 3, 2010, there were 8,152,088 shares of common stock, par value \$0.001, issued and outstanding.

Table of Contents

Speedemissions, Inc.

TABLE OF CONTENTS

<u>Cautionary Statement Relevant to Forward-Looking Information</u>	3
PART I FINANCIAL INFORMATION	
<u>ITEM 1 Financial Statements</u>	4
<u>ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>ITEM 3 Quantitative and Qualitative Disclosures About Market Risk</u>	15
<u>ITEM 4T Controls and Procedures</u>	15
PART II OTHER INFORMATION	
<u>ITEM 1 Legal Proceedings</u>	15
<u>ITEM 1A Risk Factors</u>	15
<u>ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	15
<u>ITEM 3 Defaults Upon Senior Securities</u>	15
<u>ITEM 4 Reserved</u>	15
<u>ITEM 5 Other Information</u>	15
<u>ITEM 6 Exhibits</u>	16

Table of Contents

CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION

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

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

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

	March 31, 2010	December 31, 2009
	(unaudited)	
Assets		
Current assets:		
Cash	\$ 488,806	\$ 449,203
Other current assets	155,830	136,790
Total current assets	644,636	585,993
Property and equipment, at cost less accumulated depreciation and amortization	882,438	953,183
Goodwill	4,251,657	4,251,657
Other assets	105,803	104,003
Total assets	\$ 5,884,534	\$ 5,894,836
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 223,380	\$ 177,647
Accrued liabilities	219,435	196,544
Current portion of capitalized lease obligations	36,158	47,288
Current portion of equipment financing obligations	19,553	18,865
Current portion - deferred rent	30,513	30,513
Total current liabilities	529,039	470,857
Capitalized lease obligations, net of current portion	80,057	93,604
Equipment financing obligations, net of current portion	40,412	46,389
Deferred rent	197,522	205,701
Other long term liabilities	7,350	7,350
Total liabilities	854,380	823,901
Commitments and contingencies		
Series A convertible, redeemable preferred stock, \$.001 par value, 5,000,000 shares authorized, 5,133 shares issued and outstanding; liquidation preference: \$5,133,000	4,579,346	4,579,346
Shareholders equity:		
Series B convertible preferred stock, \$.001 par value, 3,000,000 shares authorized, 2,187,981 and 2,279,981 shares issued and outstanding; liquidation preference: \$5,618,738 and \$5,854,991	2,188	2,280
Common stock, \$.001 par value, 250,000,000 shares authorized, 7,380,968 and 6,685,448 shares issued and outstanding	7,381	6,685
Additional paid-in capital	15,805,554	15,795,364
Accumulated deficit	(15,364,315)	(15,312,740)
Total shareholders equity	450,808	491,589

Edgar Filing: SPEEDEMISSIONS INC - Form 10-Q

Total liabilities and shareholders' equity	\$ 5,884,534	\$ 5,894,836
--	--------------	--------------

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31	
	2010	2009
Revenue	\$ 2,453,113	\$ 2,471,942
Costs of operations:		
Cost of emission certificates	541,485	548,577
Store operating expenses	1,556,722	1,572,829
General and administrative expenses	395,263	301,366
Loss on disposal of non-strategic assets	4,989	
Operating income (loss)	(45,346)	49,170
Interest income (expense)		
Interest income	615	25
Interest expense	(6,844)	(7,043)
Interest expense, net	(6,229)	(7,018)
Net income (loss)	\$ (51,575)	\$ 42,152
Basic net income (loss) per share	\$ (0.01)	\$ 0.01
Diluted net income (loss) per share	\$ (0.01)	\$
Weighted average common shares outstanding, basic	6,954,836	5,162,108
Weighted average common shares outstanding, diluted	6,954,836	9,439,606

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ (51,575)	\$ 42,152
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	72,559	79,800
Loss on disposal of assets	4,989	
Share-based compensation	10,793	11,837
Changes in operating assets and liabilities:		
Other current assets	(19,040)	(7,837)
Other assets	(1,800)	3,000
Accounts payable and accrued liabilities	68,625	(77,109)
Other liabilities	(8,179)	(1,138)
 Net cash provided by operating activities	 76,372	 50,705
Cash flows from investing activities:		
Proceeds from sales of property and equipment	20,000	
Purchases of property and equipment	(26,803)	(6,527)
 Net cash used in investing activities	 (6,803)	 (6,527)
Cash flows from financing activities:		
Payments on equipment financing obligations	(5,289)	(3,876)
Payments on capitalized leases	(24,677)	(10,025)
 Net cash used in financing activities	 (29,966)	 (13,901)
 Net increase in cash	 39,603	 30,277
Cash at beginning of period	449,203	512,492
 Cash at end of period	 \$ 488,806	 \$ 542,769
Supplemental Information:		
Cash paid during the period for interest	\$ 6,184	\$ 8,211

See accompanying notes to consolidated financial statements.

Table of Contents

Speedemissions, Inc.

Notes to Consolidated Financial Statements

March 31, 2010

(Unaudited)

Note 1: Nature of Operations

Description of Business

Speedemissions, Inc. (Speedemissions or the Company) performs vehicle emissions testing and safety inspections in certain cities in which vehicle emissions testing is mandated by the Environmental Protection Agency (EPA). The federal government and a number of state and local governments in the United States (and in certain foreign countries) mandate vehicle emissions testing as a method of improving air quality. As of March 31, 2010, the Company operated 41 vehicle emissions testing and safety inspection stations under the trade names of *Speedemissions* (Atlanta, Georgia and St. Louis, Missouri); *Mr. Sticker* (Houston, Texas); and *Just Emissions* (Salt Lake City, Utah). The Company also operates four mobile testing units in the Atlanta, Georgia area. The Company manages its operations based on these four regions and has one reportable segment.

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

Basis of Presentation

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

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

Consolidation

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

Note 2: Significant Accounting Policies and Estimates

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates included in these financial statements relate to useful lives of property and equipment, the valuation allowance provided against deferred tax assets and the valuation of long-lived assets and goodwill. Actual results could differ from those estimates. For a description of Speedemissions critical accounting policies see the Company s annual report on Form 10-K for the year ended December 31, 2009.

Fair Value Measurements

Edgar Filing: SPEEDEMISSIONS INC - Form 10-Q

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

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

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

Table of Contents

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

Fair Value of Financial Instruments

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

Note 3: Property and Equipment

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

	March 31, 2010	December 31, 2009
Buildings	\$ 485,667	\$ 485,667
Emission testing and safety inspection equipment	1,539,535	1,568,622
Furniture, fixtures and office equipment	146,519	145,882
Vehicles	25,772	23,272
Leasehold improvements	299,641	292,325
	2,497,134	2,515,768
Less: accumulated depreciation and amortization	1,614,696	1,562,585
	\$ 882,438	\$ 953,183

Note 4: Accrued Liabilities

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

	March 31, 2010	December 31, 2009
Payroll	\$ 102,876	\$ 44,529
Professional fees	38,194	99,960
Other	50,558	42,906
Property Taxes	27,807	9,419
	\$ 219,435	\$ 196,544

Note 5: Equipment Financing Agreements

In December 2007, the Company entered into sixty-month equipment financing agreements with two financing companies in the amounts of \$55,124 and \$40,458, respectively. The financing agreements are secured by the related equipment and are personally guaranteed by the President of the Company. The balance outstanding under these equipment financing agreements as of March 31, 2010 was \$59,965.

Note 6: Net Income (loss) Per Common Share

Basic earnings per share (EPS) represents net income (loss) divided by the weighted average number of common shares outstanding during a reported period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, including stock options, warrants, and contingently issuable shares such as the Company s Series A and Series B preferred stock (commonly and hereinafter referred to as Common Stock Equivalents), were exercised or converted into common stock.

Table of Contents

The following table sets forth the computation for basic and diluted net income (loss) per share for the three month periods ended March 31, 2010 and 2009, respectively:

	Three Months Ended March 31	
	2010	2009
Net income (loss) (A)	\$ (51,575)	\$ 42,152
Weighted average common shares - basic (B)	6,954,836	5,162,108
Effect of dilutive securities:		
Diluted effect of stock options (1, 2)		
Diluted effect of stock warrants (1, 2)		
Diluted effect of unrestricted Preferred Series A Shares (3)		4,277,498
Diluted effect of unrestricted Preferred Series B Shares (4)		
Weighted average common shares - diluted (C)	6,954,836	9,439,606
Net income (loss) per share - basic (A/B)	\$ (0.01)	\$ 0.01
Net income (loss) per share - diluted (A/C)	\$ (0.01)	\$ 0.00

- (1) Because their effects are anti-dilutive, Common Stock Equivalents of 21,153,345 issuable under stock option plans and stock warrants whose grant price is greater than the average market price of Common Shares outstanding at the end of the relevant period have been excluded from the computation of weighted average common shares (diluted) for the three months ended March 31, 2009. These Common Stock Equivalents could be dilutive in future periods.
- (2) As a result of the Company's net loss in the three months ended March 31, 2010, aggregate Common Stock Equivalents of 21,045,989 issuable under stock option plans and stock warrants that were potentially dilutive securities are anti-dilutive and have been excluded from the computation of weighted average common shares (diluted) for the three months ended March 31, 2010. These Common Stock Equivalents could be dilutive in future periods.
- (3) As a result of the Company's net loss in the three months ended March 31, 2010, aggregate Common Stock Equivalents of 4,277,498 issuable under Series A convertible, redeemable preferred stock that were potentially dilutive securities are anti-dilutive and have been excluded from the computation of weighted average common shares (diluted) for the three months ended March 31, 2010. These Common Stock Equivalents could be dilutive in future periods. The Company reported net income in the three months ended March 31, 2009 and as a result, the 4,277,498 Common Stock Equivalents were dilutive in the three months ended March 31, 2009.
- (4) Series B convertible preferred stock held by Barron Partners, LP (Barron) do not have voting rights and are subject to a maximum ownership percentage by Barron at any time of 4.9% of the Company's outstanding common stock. As a result, Common Stock Equivalents of the Series B convertible preferred stock of 16,541,141 and 18,760,000 are anti-dilutive and have been excluded from the weighted average common shares diluted calculation for the three months ended March 31, 2010 and 2009, respectively.

Note 7: Preferred and Common Stock**Preferred Stock**

There were 5,133 shares of Series A convertible redeemable preferred stock (Preferred A Stock) issued and outstanding as of March 31, 2010 and December 31, 2009. For financial statement purposes, the Preferred A Stock has been presented outside of stockholders' equity on the Company's balance sheets as a result of certain conditions that are outside the control of the Company that could trigger redemption of the

securities.

There were 2,187,981 and 2,279,981 shares of Series B convertible preferred stock (Preferred B Stock) issued and outstanding as of March 31, 2010 and December 31, 2009, respectively, all of which were held by Barron. Barron converted 92,000 and 0 shares of Preferred B Stock into 695,520 common shares during the three months ended March 31, 2010 and 2009, respectively.

Common Stock

The Company issued a total of 695,520 common shares to Barron during the three months ended March 31, 2010. The issuances to Barron resulted from Barron's conversion of a total of 92,000 shares of Preferred B Stock.

Note 8: Share-Based Compensation

The Company estimates the fair value of stock options using the Black-Scholes valuation model, and determines the fair value of restricted stock units based on the number of shares granted and the quoted price of the Company's common stock on the date of grant. Such value is recognized as expense over the requisite service period, net of estimated forfeitures, using the straight-line attribution method. The estimate of awards that will ultimately vest requires significant judgment, and to the extent actual results or

Table of Contents

updated estimates differ from the Company's current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class and historical employee attrition rates. Actual results, and future changes in estimates, may differ substantially from the Company's current estimates.

Share-based compensation expense was \$10,793 and \$11,837 during the three months ended March 31, 2010 and 2009, respectively and is included in general administrative expenses in the consolidated statements of operations.

Stock Incentive Plans

The Company has granted options to employees and directors to purchase the Company's common stock under various stock incentive plans. Under the plans, employees and non-employee directors are eligible to receive awards of various forms of equity-based incentive compensation, including stock options, restricted stock, restricted stock units and performance awards, among others. The plans are administered by the Compensation Committee of the Board of Directors, which determines the terms of the awards granted. Stock options are generally granted with an exercise price equal to the market value of the Company's common stock on the date of grant, have a term of ten years or less, and generally vest over three years from the date of grant.

The following table sets forth the options granted under the Company's stock option plans during the three month period ended March 31, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Grant-date Fair Value
Options outstanding at December 31, 2009	5,778,808	\$ 0.35	
Granted			
Expired	(10,250)	0.12	
Options outstanding at March 31, 2010	5,768,558	\$ 0.35	
Options exercisable at March 31, 2010	4,645,725	\$ 0.40	

The aggregate intrinsic value of options outstanding and exercisable at March 31, 2010 was \$0. Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of the options.

The Company estimates the fair value for stock options at the date of grant using the Black-Scholes option pricing model, which requires management to make certain assumptions. Expected volatility is based on the comparable company data. The Company bases the risk-free interest rate on U.S. Treasury note rates. The expected term is based on the vesting period and an expected exercise term. The Company does not anticipate paying cash dividends in the foreseeable future and therefore uses an expected dividend yield of 0%. The Company did not grant stock options in the three months ended March 31, 2010.

As of March 31, 2010, there was \$3,983 of unrecognized stock-based compensation expense related to non-vested stock options. This amount is expected to be recognized over a weighted average period of three months. There were 4,333 and 4,333 shares that vested during the three months ended March 31, 2010 and 2009, respectively.

There were 5,768,558 and 5,778,808 shares issued and outstanding under the Company's SKTF, Inc. 2001 Stock Option Plan, the 2005 Omnibus Stock Grant and Option Plan, Speedemissions Inc. 2006 Stock Grant and Option Plan and 2008 Stock Grant and Option Plan as of March 31, 2010 and December 31, 2009, respectively. There were no options granted under these plans during the three month period ended March 31, 2010. There were no options exercised during the three month periods ended March 31, 2010 and 2009.

Stock Warrants

There were no common stock warrants granted or exercised during the three month period ended March 31, 2010. The following table represents our warrant activity for the three month period ended March 31, 2010:

Edgar Filing: SPEEDEMISSIONS INC - Form 10-Q

	Number of Warrants	Weighted Average Grant Date Fair Value
Outstanding warrants at December 31, 2009	15,292,431	\$ 1.40
Granted		
Exercised		
Forfeited	(15,000)	\$ 2.59
Outstanding warrants at March 31, 2010	15,277,431	\$ 1.41

Table of Contents

Note 10: Income Taxes

No provision for income taxes has been reflected for the three month periods ended March 31, 2010 and 2009 as the Company has sufficient net operating loss carry forwards to offset taxable income.

Note 11: Contingencies

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

Table of Contents**ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**
Disclaimer Regarding Forward-Looking Statements

Our Management's Discussion and Analysis contains not only statements that are historical facts, but also statements that are forward-looking. Forward-looking statements are statements we make based on our management's expectations, estimates, projections and assumptions and are, by their very nature, uncertain and risky. These risks and uncertainties include international, national and local general economic and market conditions; demographic changes; our ability to sustain, manage, or forecast growth; our ability to successfully make and integrate acquisitions; emission certificate cost; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other risks that might be detailed from time to time in our filings with the Securities and Exchange Commission. The above examples are not exhaustive and new risks emerge from time to time. For a further discussion of risk factors relating to our business, see Part I, Item 1A. *Risk Factors* in our annual report on Form 10-K for the year ended December 31, 2009.

Although the forward-looking statements in this quarterly report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. Consequently, and because forward-looking statements are inherently subject to risks and uncertainties, the actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in this report and in our other reports as we attempt to advise interested parties of the risks and factors that may affect our business, financial condition, and results of operations and prospects.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Since our common stock is considered a penny stock, we are not eligible to rely on the safe harbor for forward-looking statements provided in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and any references to these sections are for informational purposes only.

Overview

Speedemissions performs vehicle emissions testing and safety inspections in certain cities in which vehicle emissions testing is mandated by the Environmental Protection Agency (EPA). The federal government and a number of state and local governments in the United States (and in certain foreign countries) mandate vehicle emissions testing as a method of improving air quality. As of March 31, 2010, the Company operated 41 vehicle emissions testing and safety inspection stations under the trade names of *Speedemissions* (Atlanta, Georgia and St. Louis, Missouri); *Mr. Sticker* (Houston, Texas); and *Just Emissions* (Salt Lake City, Utah). The Company also operates four mobile testing units in the Atlanta, Georgia area. The Company manages its operations based on these four regions and has one reportable segment.

We use computerized emissions testing and safety inspections equipment that test vehicles for compliance with vehicle emissions and safety standards. Our revenues are generated from the test or inspection fee charged to the registered owner of the vehicle. We do not provide automotive repair services.

Results of Operations**Three Months Ended March 31, 2010 and 2009**

Our revenue, cost of emission certificates, store operating expenses, general and administrative expenses and operating income (loss) for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009 were as follows:

	Three Months Ended		Percentage
	March 31		
	2010	2009	Change
Revenue	\$ 2,453,113	\$ 2,471,942	(0.8%)
Cost of emission certificates	541,485	548,577	(1.3%)
Store operating expenses	1,556,722	1,572,829	(1.0%)

Edgar Filing: SPEEDEMISSIONS INC - Form 10-Q

General and administrative expenses	395,263	301,366	31.2%
Loss from disposal of non-strategic assets	4,989		N/A
Operating income (loss)	\$ (45,346)	\$ 49,170	(192.2%)

Revenue. Revenue decreased \$18,829 or 0.8% to \$2,453,113 in the three month period ended March 31, 2010 compared to \$2,471,942 in the three month period ended March 31, 2009. The decrease in revenue over the comparable period was primarily due to a decrease in same store sales of \$39,873 or 1.6%, offset by an increase of \$21,044 from new stores. The decrease in same store sales is mainly attributable to extended inclement weather conditions experienced during January and February 2010 and increased competition in Georgia.

Table of Contents

Cost of emission certificates. Cost of emission certificates decreased \$7,092 or 1.3% in the three month period ended March 31, 2010 and was \$541,485 or 22.1% of revenues, compared to \$548,577 or 22.2% of revenues in the three month period ended March 31, 2009. The decrease in the cost of emission certificates was primarily due to a \$11,596 decrease in same store certificate costs resulting from decreased sales, offset by an increase of \$4,504 in the cost of emission certificates from new stores.

Store operating expenses. Store operating expenses decreased \$16,107 or 1.0% in the three month period ended March 31, 2010 and was \$1,556,722 or 63.5% of revenues, compared to \$1,572,829 or 63.6% of revenues in the three month period ended March 31, 2009. The decrease was mainly attributable to a decrease of \$62,944 in same store operating expenses, offset by additional expenses from new stores of \$46,837.

General and administrative expenses. Our general and administrative expenses increased \$93,897 or 31.2% to \$395,263 in the three month period ended March 31, 2010 from \$301,366 in the three month period ended March 31, 2009. The increase in general and administrative expenses was primarily due to increases in professional fees and higher personnel costs.

Loss from disposal of non-strategic assets. We recognized a loss of \$4,989 on the sale of equipment in the three month period ended March 31, 2010. We did not recognize a gain or loss from the disposal of non-strategic assets in the three month period ended March 31, 2009.

Operating income (loss) Our operating income (loss) decreased \$94,516 in the three month period ended March 31, 2010 and was (\$45,346) compared to an operating income of \$49,170 in the three month period ended March 31, 2009.

Interest income, interest expense, net income (loss) and basic and diluted income (loss) per share. Our interest income, interest expense, net income (loss) and basic and diluted income (loss) per share for the three month period ended March 31, 2010 as compared to the three month period ended March 31, 2009 is as follows:

	Three Months Ended March 31,	
	2010	2009
Operating income (loss)	\$ (45,346)	\$ 49,170
Interest income	615	25
Interest expense	(6,844)	(7,043)
Net income (loss)	\$ (51,575)	\$ 42,152
Basic income (loss) per share	\$ (0.01)	\$ 0.01
Diluted income (loss) per share	\$ (0.01)	\$ 0.00
Weighted average shares outstanding, basic	6,954,836	5,162,108
Weighted average shares outstanding, diluted	6,954,836	9,439,606

The Company incurred net interest expense of \$6,229 and \$7,018 during the three month periods ended March 31, 2010 and 2009, respectively.

Net income (loss) and basic and diluted income (loss) per share. Net income (loss) was (\$51,575) and \$42,152 in the three month period ended March 31, 2010 and 2009, respectively. Basic and diluted net loss per share was (\$0.01) and \$0.00, respectively in the three month period ended March 31, 2010. Basic and diluted net income per share was \$0.01 and \$0.00, respectively in the three month period ended March 31, 2009.

Liquidity and Capital Resources**Introduction**

Our net cash position increased by \$39,603 during the three months ended March 31, 2010 primarily from cash provided by operations and our current liabilities increased by \$58,182. Our current liabilities increased mainly due to a timing difference from the payment of our January 1, 2010 payroll on December 31, 2009 instead of January 1, 2010 due to the holiday weekend. We anticipate an increase in our net operating cash

Edgar Filing: SPEEDEMISSIONS INC - Form 10-Q

flow on a long-term basis, but we may not achieve positive operating cash flows on a consistent basis during 2010.

Cash Requirements

For the three months ended March 31, 2010, our net cash provided by operating activities was \$76,372 compared to net cash provided by operations of \$50,705 in the three months ended March 31, 2009. Positive operating cash flows during the three months ended March 31, 2010 were primarily created by depreciation and amortization of \$72,559, an increase in accounts payable and

Table of Contents

accrued liabilities of \$68,625, share-based compensation expenses of \$10,793 and a loss on disposal of assets of \$4,989. The increase in net cash provided by operating activities was offset by a net loss of \$51,575, an increase in other current assets of \$19,040, an increase in other assets of \$1,800 and a decrease in other liabilities of \$8,179.

Positive operating cash flows during the three months ended March 31, 2009 were primarily created by net income of \$42,152, depreciation and amortization of \$79,800, share-based compensation expenses of \$11,837 and a decrease in other assets of \$3,000, offset by a decrease of \$77,109 in accounts payable and accrued liabilities, an increase in other assets of \$7,837, a decrease in other liabilities of \$1,138.

Sources and Uses of Cash

Net cash used in investing activities was \$6,803 for the three months ended March 31, 2010 compared to net cash used in investing activities of \$6,527 for the three months ended March 31, 2009. The net cash used in investing activities during the three months ended March 31, 2010 was related to capital expenditures of \$26,803, offset by \$20,000 in proceeds from the sale of equipment. The net cash used in investing activities during the three months ended March 31, 2009 was related to capital expenditures of \$6,527.

Net cash used in financing activities was \$29,966 and \$13,901 for the three months ended March 31, 2010 and 2009, respectively. During the three months ended March 31, 2010 we made principal payments of \$5,289 and \$24,677 on equipment financing obligations and capital leases, respectively. During the three months ended March 31, 2009 we made principal payments of \$3,876 and \$10,025 on equipment financing obligations and capital leases, respectively.

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 our Board of Directors, the Company has identified accounting policies related to valuation of our equity instruments, valuation of goodwill, created as the result of business acquisitions, as key to an understanding of our financial statements. These are important accounting policies that require management's most difficult, subjective judgments.

Table of Contents

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are not required to provide the information required by this Item, pursuant to 305(e) of Regulation S-K.

ITEM 4T Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2010 (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 changes in the Company's internal controls over financial reporting during the three months ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the internal controls as of the Evaluation Date.

(A) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving the Company's disclosure control objectives. The Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are, in fact, effective at this reasonable assurance level as of the end of the period covered. In addition, the Company reviewed its internal controls, and there have been no significant changes in its internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation or from the end of the reporting period to the date of this Form 10-Q.

(B) Changes in Internal Control Over Financial Reporting

In connection with the evaluation of the Company's internal controls during the three months ended March 31, 2010, the Company's Chief Executive Officer and Chief Financial Officer has determined that there are no changes to the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially effect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 Legal Proceedings

As of March 31, 2010, neither the Company nor its subsidiaries is a party to nor is any of our property subject to any material or other pending legal proceedings that would materially adversely affect our operations.

ITEM 1A Risk Factors

As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

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

ITEM 3 Defaults Upon Senior Securities

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

ITEM 4 Reserved

ITEM 5 Other Information

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

Table of Contents

ITEM 6 Exhibits

(a) Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

SPEEDEMISSIONS, INC.

Date: May 14, 2010

By: /s/ Richard A. Parlontieri
Richard A. Parlontieri

President

Date: May 14, 2010

By: /s/ Michael S. Shanahan
Michael S. Shanahan

Chief Financial Officer