

SPEDEMISSIONS INC  
Form 10QSB  
May 15, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-QSB**

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x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2007

.. **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-49688

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**Speedemissions, Inc.**

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

Florida	33-0961488
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1015 Tyrone Road	30290
Suite 220	(Zip Code)
Tyrone, GA	

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(Address of principal executive offices)

Issuer's telephone number (770) 306-7667

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

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 7, 2007, there were 3,034,958 shares of common stock, par value \$0.001, issued and outstanding.

**Transitional Small Business Disclosure Format**

(check one):

Yes  No

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**Speedemissions, Inc.**

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**PART I**

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

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

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

	March 31, 2007 (unaudited)	December 31, 2006
<b>Assets</b>		
Current assets:		
Cash	\$ 325,208	\$ 320,231
Other current assets	163,670	224,930
<b>Total current assets</b>	<b>488,878</b>	<b>545,161</b>
Property and equipment, at cost less accumulated depreciation and amortization	1,187,452	1,229,329
Goodwill	7,100,572	7,100,572
Other assets	59,926	59,926
<b>Total assets</b>	<b>\$ 8,836,828</b>	<b>\$ 8,934,988</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 310,745	\$ 318,297
Accrued liabilities	465,909	532,984
Debt payable	111,747	111,747
Current portion of capitalized lease obligations	12,925	12,925
<b>Total current liabilities</b>	<b>901,326</b>	<b>975,953</b>
<b>Other liabilities</b>	<b>108,311</b>	<b>113,848</b>
Commitments and contingencies		
Shareholders' equity:		
Series A convertible preferred stock, \$.001 par value, 5,000,000 shares authorized, 5,133 and 5,133 shares issued and outstanding in 2007 and 2006, respectively liquidation preference: \$10,976,000	5	5
Series B convertible preferred stock, \$.001 par value, 3,000,000 shares authorized, 2,481,482 and 2,481,482 shares issued and outstanding in 2007 and 2006, respectively liquidation preference: \$5,906,000	2,481	2,481
Common stock, \$.001 par value, 250,000,000 shares authorized, 2,963,528 and 2,873,598 shares issued and outstanding in 2007 and 2006, respectively	2,964	2,964
Additional paid-in capital	19,655,550	19,622,834
Deferred compensation	(16,021)	(17,437)
Accumulated deficit	(11,817,788)	(11,765,660)
<b>Total shareholders' equity</b>	<b>7,827,191</b>	<b>7,845,187</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 8,836,828</b>	<b>\$ 8,934,988</b>

*See accompanying notes to consolidated financial statements.*



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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2007</b>	<b>2006</b>
Revenue	\$ 2,412,538	\$ 2,427,529
Costs and expenses:		
Cost of emission certificates	599,690	650,250
Store operating expenses	1,499,965	1,377,723
General and administrative expenses	357,835	379,171
Loss from operations	(44,952)	20,385
(Gain) loss from disposal of non-strategic assets	3,849	(10,472)
Interest expense	3,327	2,777
Net income (loss)	\$ (52,128)	\$ 28,080
Net income (loss) per share (basic)	\$ (0.02)	\$ 0.01
Net income (loss) per share (diluted)	\$ (0.02)	\$ 0.00
Weighted average common shares outstanding, basic	2,963,528	2,762,481
Weighted average common shares outstanding, diluted	2,963,528	7,327,479

*See accompanying notes to consolidated financial statements.*

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

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating activities:</b>		
Net income (loss)	\$ (52,128)	\$ 28,080
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	88,552	99,242
(Gain) loss on sale of non-strategic assets	3,849	(10,472)
Share based compensation expenses	32,716	6,655
Stock issued for services		50,000
Changes in operating assets and liabilities, net of acquisitions:		
Other current assets	61,260	(30,115)
Other assets		(7,200)
Accounts payable and accrued liabilities	(77,126)	(103,081)
Net cash provided by operating activities	57,123	33,109
<b>Cash flows from investing activities:</b>		
Proceeds from asset sales	400	12,000
Purchases of property and equipment	(49,509)	(64,524)
Net cash used in investing activities	(49,109)	(52,524)
<b>Cash flows from financing activities:</b>		
Payments on capitalized leases	(3,037)	(7,348)
Net cash used in financing activities	(3,037)	(7,348)
Net increase (decrease) in cash	4,977	(26,763)
Cash at beginning of year	320,231	250,227
Cash at end of year	\$ 325,208	\$ 223,464
<b>Supplemental Information:</b>		
Cash paid during the year for interest	\$ 2,514	\$ 1,483

*See accompanying notes to consolidated financial statements.*

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### **Speedemissions, Inc.**

### **Notes to Consolidated Financial Statements**

**March 31, 2007**

**(Unaudited)**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### **General**

We were incorporated as SKTF Enterprises, Inc. in Florida in March 2001. In June 2003, we acquired Speedemissions, Inc., a Georgia corporation in the business of vehicle emissions testing since May 2000. In connection with the acquisition, we changed our name to Speedemissions, Inc. in September 2003. As of May 7, 2007, we operated 35 vehicle emissions testing and safety inspection centers in three separate markets, greater Atlanta, Georgia; Houston, Texas; and Salt Lake City, Utah, and four mobile units in the Atlanta, Georgia area.

#### **Nature of Presentation**

The accompanying unaudited consolidated financial statements include the accounts of Speedemissions and its wholly-owned subsidiaries, Mr. Sticker, Inc. and Just, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the SEC's instructions applicable to Form 10-QSB interim financial information. In the opinion of management, such consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows as of March 31, 2007 and for all periods presented. The results of operations presented in the accompanying consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any future period.

The accompanying consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for annual financial statements. Such interim consolidated financial statements should be read in conjunction with our Company's audited financial statements contained in our Form 10-KSB for the year ended December 31, 2006.

#### **Adoption of Recent Accounting Pronouncements**

On January 1, 2007, Speedemissions adopted Financial Accounting Standards Board Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). The adoption of FIN No. 48 on January 1, 2007 did not result in a material cumulative-effect adjustment.

#### **Nature of Operations**

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



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The Company's 35 emissions testing stations operate under the trade names *Speedemissions*, *Mr. Sticker and Sticker Stop (Texas)* and *Just Inc. (Utah)*. At its emissions testing stations, the Company uses computerized emissions testing equipment and safety inspection equipment that tests vehicles for compliance with emissions and safety standards. In the emissions testing and safety inspection industry, such stations are known as decentralized facilities. The Company utilizes basic testing systems that test a motor vehicle's emissions while in neutral and enhanced testing systems that test a vehicle's emissions under simulated driving conditions.

### **Use of Estimates in Financial Statements**

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 period. Material estimates included in these financial statements relate to useful lives of certain assets and valuation of long-term assets such as goodwill. Actual results could differ from those estimates.

### **Revenue Recognition**

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

The Company normally requires that the customer's payment be made with cash, check, or credit card; accordingly, the Company does not have significant levels of accounts receivable.

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

### **Fair Value of Financial Instruments**

The carrying amounts of cash, accounts receivable, accounts payable, accrued liabilities, and other short-term liabilities approximate fair value because of the short-term nature of these accounts.

### **Impairment of Long-Lived Assets**

#### Property and Equipment

The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When indicators of impairment are present, the Company evaluates the carrying amount of such assets in relation to the operating performance and future estimated undiscounted net cash flows expected to be generated by the assets or underlying businesses.

#### Goodwill

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

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### **Income Taxes**

Deferred income taxes are recognized for the effect of temporary differences between financial reporting and tax filing in accordance with the requirements of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ( SFAS 109 ).

### **Regulatory Impact**

Our business depends upon government legislation and regulations mandating air pollution controls. Georgia, Texas, and Utah laws are especially important to us because all of our existing emissions testing services are currently conducted in those states. In addition, because we are seeking expansion opportunities, laws mandating air pollution controls in other states could affect our business or, since not all states require emissions testing, our ability to expand. Changes in federal or state laws that govern or apply to our operations could have a materially adverse effect on our business, such as a reduction in the price we can charge customers for our testing service, an increase in the fees we must pay to the state in order to operate emissions testing stations in its jurisdiction, and the adoption of a system whereby the state, as opposed to private operators, performs vehicle emissions testing. We cannot be assured that changes, if any, in federal or state law would not have a materially adverse effect on the vehicle emissions testing industry generally or, specifically, on our business.

### **Stock-Based Compensation**

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ( SFAS 123R ), which establishes accounting for equity instruments exchanged for employee services. Under the provisions of SFAS No. 123R, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). Prior to January 1, 2006, the Company accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ) and related interpretations. The Company also followed the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. The Company elected to adopt the modified prospective transition method as provided by SFAS 123R and, accordingly, financial statement amounts for the prior periods presented in this Form 10-QSB have not been restated to reflect the fair value method of expensing share-based compensation. See Note 5 for additional disclosures.

### **Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements*, which establishes a framework for reporting fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of this standard on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently assessing the impact of the adoption of this standard on its financial statements.

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### **Note 2: Going Concern**

The Company has historically incurred losses and has limited capital resources which raises substantial doubt about the Company's ability to continue as a going concern. The future success of the Company is contingent upon, among other things, the ability to: achieve and maintain satisfactory levels of profitable operations; obtain and maintain adequate levels of debt and/or equity financing; and provide sufficient cash flow from operations to meet current and future obligations. The Company is actively seeking new sources of financing to expand its revenue opportunities, however there is no guarantee that the Company will be successful in obtaining the financing required to fund the capital needed for expansion.

The Company has taken certain steps to maintain its operating and financial requirements in an effort to enable it to continue as a going concern until such time that revenues are sufficient to cover expenses on a consistent basis, including expanding its revenue opportunities through the investment in new stores, incorporating revisions to its processes and costs by seeking reduced operating costs through service agreements, redistributing labor to reduce overtime costs, and improving the appearance of its stores and personnel. As a result of these actions, the Company operated at a profit in each of the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006. However, the profits generated in these quarters were not enough to cover losses incurred as a result of additional operating expenses from new stores that the Company opened or was in the process of opening during the first quarter of 2007 and fourth quarter of 2006, the stock compensation expense as required by SFAS 123R for the issuance of stock options during the first quarter of 2007 and fourth quarter of 2006, and an impairment charge recorded against goodwill and related assets in the fourth quarter of 2006.

The Company has prepared financial forecasts which indicate that, based on its current business plans and strategies, it anticipates that it will achieve profitable operations and generate positive cash flows in the future. However, the ultimate timing and ability of the Company to achieve these forecasts and to meet the objectives discussed in the preceding paragraph cannot be determined at this time. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

### **Note 3: Debt Payable to Related Parties**

The Company has a note payable to V2R, Inc. ( "V2R" ), which is controlled by Bahram Yusdfzadeh, a former director of the Company. The note bears interest at 10% per annum. The unpaid principal and interest due was \$60,625 and \$59,332 as of March 31, 2007 and December 31, 2006, respectively. See Note 9 for additional disclosures.

### **Note 4: Net Income (Loss) Per Common Share**

Net income (loss) per share has been computed according to SFAS No. 128, "Earnings per Share," which requires a dual presentation of basic and diluted earnings per share ( "EPS" ). Basic EPS represents net income 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.

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The following table sets forth the computation for basic and diluted net income per share for the three months ended March 31, 2007 and 2006, respectively:

	Three Months Ended March 31	
	2007	2006
Net income (loss) (A)	\$ (52,128)	\$ 28,080
Weighted average common shares basic (B)	2,963,528	2,762,481
Effect of dilutive securities (1) (3):		
Diluted effect of stock options (2)		
Diluted effect of stock warrants (2)		287,500
Diluted effect of unrestricted preferred Series A shares		4,277,498
Weighted average common shares diluted (C)	2,963,528	7,327,479
Net income (loss) per share basic (A/B)	\$ (0.02)	\$ 0.01
Net income (loss) per share diluted (A/C)	\$ (0.02)	\$ 0.00

- (1) As a result of the Company's net loss in the three months ended March 31, 2007, aggregate Common Stock Equivalents of 42,989,060 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, 2007. These Common Stock Equivalents could be dilutive in future periods.
- (2) Because their effects are anti-dilutive, 17,490,437 shares 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, 2006.
- (3) Series B convertible preferred stock held by Barron Partners, LP do not have voting rights and are subject to a maximum ownership by Barron Partners, LP at any time of 4.9% of the Company's outstanding common stock. As a result, Common Share Equivalents of the Series B convertible preferred stock of 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, 2006.

**Note 5: Stockholders Equity****Preferred Stock**

There were 5,133 shares of Series A convertible preferred stock issued and outstanding as of March 31, 2007 and December 31, 2006, respectively.

There were 2,481,482 shares Series B convertible preferred stock issued and outstanding as of March 31, 2007 and December 31, 2006, respectively.

**Common Stock**

The Company is authorized to issue 250,000,000 shares of \$0.001 par value common stock, of which 2,963,528 shares were issued and outstanding as of March 31, 2007 and December 31, 2006, respectively.

**Table of Contents****Note 6: Share-Based Compensation**

The Company accounts for stock-based compensation pursuant to SFAS No. 123(R), Share-Based Payment, which requires measurement of compensation cost for all stock awards at fair value on the date of grant and recognition of compensation over the requisite service period for awards expected to vest. 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 Speedemissions 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 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.

Stock-based compensation expense under SFAS No. 123(R) was \$34,132 and \$8,071 during the three months ended March 31, 2007 and 2006, respectively.

**Stock Option 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 Board of Directors and Compensation Committee of the Board of Directors, which determine the terms of the awards granted. Stock options are generally granted with an exercise price equal to the market value of Speedemissions, Inc. 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 Speedemissions Stock Option Plans as of March 31, 2007:

	Stock Options	Weighted Average Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2006	2,290,625	\$ 0.69		
Granted				
Forfeited/Cancelled	(29,500)	0.96		
Outstanding at March 31, 2007	2,261,125	\$ 0.70	9.32	\$ 0
Vested and exercisable at March 31, 2007	881,392	\$ 0.84	9.11	\$ 0

The aggregate intrinsic value of options outstanding and exercisable at March 31, 2007, based on the Company's closing stock price of \$0.25 was \$0. Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of the options.

As of March 31, 2007, there was \$176,334 of unrecognized stock-based compensation expense related to nonvested stock options. This amount will be recognized over the vesting periods, as stated in the option agreements. No shares vested during the three months ended March 31, 2007.

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The following table represents our nonvested stock options and warrant activity for the three months ended December 31, 2007:

		Number of Options/Warrants	Weighted Average Grant Date Fair Value
Nonvested	December 31, 2006	1,396,900	\$ 0.60
Granted			
Vested			
Forfeited		(18,833)	0.56
Nonvested	March 31, 2007	1,378,067	\$ 0.60

There were 2,261,125 and 2,290,625 shares issued and outstanding under the Company's SKTF, Inc. 2001 Stock Option Plan, the 2005 Omnibus Stock Grant and Option Plan and Speedemissions Inc. 2006 Stock Grant and Option Plan as of March 31, 2007 and December 31, 2006, respectively. There were no options granted or exercised during the three month period ended March 31, 2007.

**Stock Warrants**

There were 17,604,938 and 17,690,437 common stock warrants issued and outstanding as of March 31, 2007 and December 31, 2006, respectively. There were no common stock warrants granted or exercised during the three month period ended March 31, 2007.

**Note 7: Income Taxes**

No provision for income taxes has been reflected for the three month period ended March 31, 2007 as the Company has sufficient net operating loss carry forwards to offset taxable income.

**Note 8: 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.

**Note 9: Subsequent Events**

The Georgia Department of Transportation and Gwinnett County plan a road widening project at the site of our Lawrenceville, Georgia store. We own the land and the building. As a result, Gwinnett County, filed a declaration of taking and condemnation petition on January 24, 2007, taking the majority of the property. As of May 8, 2007, we still occupied the building and continued to perform emission tests at the location. On April 17, 2007, we received \$210,694 from Gwinnett County as compensation for a portion of the building and land. We have filed an appeal based on the amount of just and fair compensation, which includes the (a) fair market value of the property taken, (b) any consequential damage to the remaining property, and (c) any business loss resulting from the taking. The final amount of compensation to be paid to Speedemissions by Gwinnett County for the building and land and the date we will have to vacate the premises was not known as of May 8, 2007.

On April 19, 2007, we used proceeds received from the sale of the Lawrenceville property to repay a \$60,000 bank debt secured by the property and \$231 in accrued interest. On April 20, 2007 we repaid our loan payable to V2R in full. The amount paid including accrued interest was \$60,934.

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**ITEM 2 Managements Discussion and Analysis or Plan of Operation**

**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 (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Forward-looking statements 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; 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 store leases, 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.

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.

**Overview**

As of March 31, 2007 we operated 35 vehicle emissions testing stations and four mobile units in three separate markets, greater Atlanta, Georgia, Houston, Texas and greater Salt Lake City, Utah. 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 for an emissions test is \$25.00, and a fee of \$6.95 is paid to the State of Georgia; Georgia does not require a safety inspection. In Texas, the maximum fee that we can charge is \$39.50, for both an emissions test and a safety inspection, and a fee varying between approximately \$5.50 and \$14.00 per certificate, depending on the type of test is paid to the State of Texas. In Utah, there is not a maximum fee that we can charge in Salt Lake County. We charge \$38.00 for an emissions test and \$17.00 for a safety inspection and remit a fee of \$1.80 to the County per emissions certificate and \$2.00 to the Utah Highway Patrol for each safety inspection. There is a maximum of \$25.00 and \$17.00 that we can charge in Weber County, Utah for an emissions test and safety inspection respectively. A fee of \$3.00 is remitted to Weber County per emissions certificate and a \$2.00 fee is remitted to the Utah Highway Patrol for each safety inspection.

We want to grow. We completed four acquisitions during 2004 and two acquisitions during 2005, which added 32 testing centers and four mobile units. Since September 30, 2006, we have opened or began the process of opening four new emissions testing centers (one in Atlanta and three in Houston). We intend to continue growing in 2007 by opening company-owned stations in existing markets as well as in new markets such as Dallas, Texas and St. Louis, Missouri and acquiring more competitors if we are able to obtain reasonable terms on additional equity or debt needed to fund such acquisitions.

We expect overall profits to be adversely affected in 2007 as we continue to invest in new emissions testing stations in Houston, Dallas and St. Louis. Opening stations in new markets involves initial infrastructure costs and sales and marketing costs to add loyal customers who can generate recurring revenue for the Company.

**Table of Contents****Explanatory Paragraph in Report of Our Independent Certified Public Accountants**

Our independent auditors have included an explanatory paragraph in their most recent report dated March 27, 2007, stating that our audited financial statements for the year ending December 31, 2006 were prepared assuming that we will continue as a going concern. However, they note that our recurring losses from operations, past history of operating cash flow deficiencies and its limited capital resources raise substantial doubt about our ability to continue as a going concern.

Our independent auditors included the explanatory paragraph based primarily on an objective test of our historical financial results. Although we agree that this explanatory paragraph is applicable when the objective test is applied, we believe that if we can successfully implement our business plan in the next fiscal year, future audit reports might be issued without this explanatory paragraph. Until such time, however, our going concern paragraph may be viewed by some shareholders and investors as an indication of financial instability, and it may impair our ability to raise capital. For additional disclosure, see Liquidity and Capital Resources.

**Results of Operations****Three Months Ended March 31, 2007 and 2006**

Our revenue, cost of emission certificates, store operating expenses, general and administrative expenses and income (loss) from operations for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006 were as follows:

	<b>Three Months Ended</b>		<b>Percentage</b>
	<b>March 31</b>		
	<b>2007</b>	<b>2006</b>	<b>Change</b>
Revenue	\$ 2,412,538	\$ 2,427,529	(0.6%)
Cost of emission certificates	599,690	650,250	(7.8%)
Store operating expenses	1,499,965	1,377,723	8.9%
General and administrative expenses	357,835	379,171	(5.6%)
<b>Income (loss) from operations</b>	<b>\$ (44,952)</b>	<b>\$ 20,385</b>	<b>(320.5%)</b>

*Revenue.* Revenue decreased \$14,991 or (0.6%) to \$2,412,538 in the three months ended March 31, 2007 compared to \$2,427,529 in the three months ended March 31, 2006. The decrease in revenue was primarily due to a loss of \$115,068 in revenue from the closure of a single store in Houston where the landlord sold the property upon the expiration of our lease in April 2006. Same store sales for the three months ended March 31, 2007 increased \$85,516, or 3.7% from the comparable period in 2006. Management believes the increase in comparable stores sales is related to the Company's efforts to improve the appearance of its stores and its focus on increasing customer satisfaction. The Company opened one new store in Houston during the three months ended March 31, 2007, which combined with the revenue from an Atlanta store opened during August 2006 accounted for the remaining \$14,561 growth in revenue in the three month period ended March 31, 2007 over the comparable period in 2006.

*Cost of emission certificates.* Cost of emission certificates decreased \$50,560 or (7.8%) in the three month period ended March 31, 2007 and was \$599,690 or 24.9% of revenues, compared to \$650,250 or 26.8% of revenues in the three months ended March 31, 2006. The decrease was primarily due to a reduction in certificate costs of \$35,817 resulting from the closure of a single store in Houston as discussed above, a net decrease of \$27,810 in certificate costs in Utah resulting from a decrease in the cost of an emissions certificate in Salt Lake County Utah from \$3.60 to \$1.80 per certificate and an increase in same store sales. The decrease was offset by a net increase in the number of same store emissions tests performed which resulted in higher cost of emission certificates of \$8,490 at the Company's Texas and Georgia stores and certificate costs of \$4,577 for tests performed at new stores opened since August 2006.



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*Store operating expenses.* Store operating expenses increased \$122,242, or 8.9% in the three month period ended March 31, 2007 and was \$1,499,965 or 62.2% of revenues, compared to \$1,377,723 or 56.8% of revenues in the three month period ended March 31, 2006. The increase was primarily due to \$84,758 in new store operating expenses associated with opening two new stores since August 2006 and two additional new stores that the Company intends to open in 2007. Also contributing to the increase were higher personnel costs from the implementation of store employee incentives and additional personnel required to provide our customers with improved service and customer satisfaction. The increase was offset by a decrease in store operating expenses of \$34,090 resulting from the closure of a store in Houston and a decrease of approximately \$29,000 in repair and maintenance costs.

*General and administrative expenses.* Our general and administrative expenses decreased \$21,336, or (5.6%) to \$357,835 in the three month period ended March 31, 2007 from \$379,171 in the three month period ended March 31, 2006. The decrease in general and administrative expenses was primarily due to a reduction of \$79,283 in consulting, legal and accounting fees partially offset by an increase of \$26,062 in stock-based compensation expense in accordance with SFAS No. 123(R) and an increase in other general and administrative expenses of \$31,885.

*(Gain) loss from disposal of non-strategic assets, Interest Expense, Net Income (Loss) and Earnings Per Share* Our (gain) loss from disposal of non-strategic assets, interest expense, net income (loss) and earnings per share for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006 is as follows:

	<b>Three Months Ended March 31</b>	
	<b>2007</b>	<b>2006</b>
Income (loss) from operations	\$ (44,952)	\$ 20,385
(Gain) loss from disposal of non-strategic assets	3,849	(10,472)
Interest expense	3,327	2,777
Net Income (loss)	\$ (52,128)	\$ 28,080
Basic income (loss) per share	\$ (0.02)	\$ 0.01
Diluted income (loss) per share	\$ (0.02)	\$ 0.01
Weighted average shares outstanding, basic	2,963,528	2,762,481
Weighted average shares outstanding, diluted	2,963,528	7,327,479

During the three months ended March 31, 2007, the Company incurred a loss of \$3,849 on the disposal of non-strategic assets as compared to a gain of \$10,472 in the comparable period ended March 31, 2006.

Our interest expense increased \$550 during the three months ended March 31, 2007 and was \$3,327 compared to \$2,777 for the three months ended March 31, 2006.

During the three months ended March 31, 2007, we had a net loss of \$52,128 or (\$0.02) per weighted-average share (basic and diluted). During the three months ended March 31, 2006, we reported net income of \$20,080 or \$0.01 per weighted-average share basic and \$0.00 per weighted-average share diluted.

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### **Liquidity and Capital Resources**

#### Introduction

We generated positive operating cash flows of \$57,123 and \$33,109 in the quarters ending March 31, 2007 and March 31, 2006, respectively. As we continue to implement our growth strategy, we anticipate an increase in our net operating cash flow on a long-term basis, but with the increased costs of expanding our operations, may not achieve positive operating cash flow on a consistent basis during 2007. The Company has funded operations and acquisitions primarily through the issuance of equity securities. In the future we may continue to issue our equity securities in order to raise additional capital. We are currently reviewing and pursuing opportunities to raise capital, although the terms of an offering have not been determined.

#### Cash Requirements

For the three months ended March 31, 2007 our net cash provided by operating activities was \$57,123 as compared to net cash provided in operating activities of \$33,109 during the three months ended March 31, 2006. Positive operating cash flows during the three months ended March 31, 2007 were primarily created by a decrease in other current assets of \$61,260, depreciation and amortization of \$88,552 and share based compensation expenses of \$32,716, partially offset by a net loss from operations of \$52,128 and a decrease of \$77,126 in accounts payable and accrued liabilities. Because of our growth, we do not have an opinion as to how indicative these results will be of future results.

For the three months ended March 31, 2006, net cash provided by operations of \$33,109 was primarily created by net income from operations of \$28,080, depreciation and amortization of \$99,242, non-cash stock issued for services of \$50,000, partially offset by a decrease of \$103,081 in accounts payable and accrued liabilities and an increase of \$30,115 in other current assets.

#### Sources and Uses of Cash

Prior to January 1, 2006, we had not generated sufficient cash flow from operations to fund growth as we continued to acquire and open new emission testing stations. However, cash flows from operations for the last fifteen months have generated sufficient profits to cover operating expenses, and we have used some of these profits to generate organic growth and reduce our liabilities. We expect overall net cash flow from operations to be adversely affected in 2007 as we continue to invest in new emissions testing stations in the new markets of Dallas and St. Louis and increase the number of stores in our existing markets; however, we do seek to effectively manage expenses associated with our existing operations and working capital to mitigate the adverse impact our growth initiatives are expected to have on our operational cash flow.

Net cash used in investing activities was \$49,109 and \$52,524 for the three months ended March 31, 2007 and 2006, respectively. The investing activities during the three months ended March 31, 2007 were due to capital expenditures related to the building of new stores and the purchase of equipment in the amount of \$49,509. The investing activities during the three months ended March 31, 2006 were due to capital expenditures related to the building of new stores and the purchase of equipment in the amount of \$64,524, offset by the proceeds from the sale of non-strategic assets of \$12,000. Management continuously reviews industry and economic conditions to identify opportunities to pursue acquisitions of competitors and we expect to invest in new stores in new and existing markets.

Net cash used in financing activities was \$3,037 and \$7,348 for the three months ended March 31, 2007 and 2006, respectively. Net cash used in financing activities during the three months ended March 31, 2007 and 2006 resulted primarily from the payment of capital leases.

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### **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 common stock and for assessing whether any value should be assigned to a warrant that we believe 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 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-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2007 (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, 2007 that has materially affected, or is reasonably likely to materially affect, the internal controls as of the Evaluation Date.

## **PART II**

### **ITEM 1 Legal Proceedings**

As of March 31, 2007, 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**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-KSB for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-KSB are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

There have been no material changes to the risk factors disclosed in Item 1A in our Form 10-KSB for the year ended December 31, 2006.

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**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 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.

**ITEM 6 Exhibits**

(a) Exhibits

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 Section 1350 Certifications

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**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 15, 2007

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

President

Date: May 15, 2007

By: /s/ Michael Shanahan  
Michael Shanahan

Chief Financial Officer