SPEEDEMISSIONS INC
Form 10-Q
August 14, 2014

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 June 30, 2014

¨ 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	33-0961488
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1015 Tyrone Road Suite 220 Tyrone, GA	30290
(Address of principal executive offices)	(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 x 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 x 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 x

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

As of August 8, 2014, there were 100,538,914 shares of common stock, par value $0.001, issued and outstanding.

Speedemissions, Inc.

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CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q of Speedemissions, Inc. (references in this Report to "Speedemissions," "Company," "we," "us" and "our" mean Speedemissions, Inc. and our consolidated subsidiaries) contains forward-looking statements 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 statements that look to future events and consist of, among other things, statements about our anticipated future income including the amount and mix of revenue among type of product, category of customer, geographic region and distribution method and our anticipated future expenses and tax rates. Forward-looking statements include our business strategies and objectives and include statements about the expected benefits of our strategic alliances and acquisitions, our plans for the integration of acquired businesses, our continued investment in complementary businesses, products and technologies, our expectations regarding product acceptance, product and pricing competition, cash requirements and the amounts and uses of cash and working capital that we expect to generate. The words "may," "would," "should," "will," "assume," "believe," "plan," "expect," "anticipate," "cou "predict," "goals," "continue," "project," and similar expressions or the negative of these terms or other comparable terminology are meant 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, including those described under Item 1A-Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013, some of which are beyond the Company's control and are difficult to predict. We urge investors to consider all of these factors carefully in evaluating the forward-looking statements contained in this Quarterly Report on Form 10-Q. The Company's future results and shareholder values may differ materially from those expressed or forecast 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, or to update the reasons why actual results could differ from those expressed in, or implied or projected by, the forward-looking statements.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Speedemissions, Inc. and Subsidiaries
Consolidated Balance Sheets

	June 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash	$45,827	$ 65,854
Notes receivable – current portion	74,500	32,000
Certificate and merchandise inventory	25,916	28,599
Deferred financing costs	39,984	99,958
Other current assets	77,667	140,876
Total current assets	263,894	367,287
Notes receivable, net of current portion	57,463	61,954
Property and equipment, net	289,065	398,897
Goodwill	1,443,353	1,808,731
Other assets	117,845	111,401
Total assets	$2,171,620	$ 2,748,270
Liabilities and Shareholders' Deficit		
Current liabilities:		
Line of credit	$676,149	$ 939,245
Note payable	171,029	60,000
Accounts payable	824,372	810,512
Accrued liabilities	590,603	562,613
Current portion - capitalized lease obligations	25,863	25,863
Current portion - equipment financing obligations	11,239	13,155
Current portion – deferred rent	15,820	15,820
Total current liabilities	2,315,075	2,427,208
Capitalized lease obligations, net of current portion	50,646	65,187
Equipment financing obligations, net of current portion	8,497	10,791
Deferred rent	113,410	98,730
Other long term liabilities	14,709	14,709
Total liabilities	2,502,337	2,616,625
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' deficit:		
Common stock, $.001 par value, 250,000,000 shares authorized, 93,548,914 and 39,315,855 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	93,479	39,246
Additional paid-in capital	16,236,043	16,057,776

Accumulated deficit	(21,239,585)	(20,544,723)
Total shareholders' deficit	(4,910,063)	(4,447,701)
Total liabilities and shareholders' deficit	$2,171,620	$2,748,270

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Revenue	$ 1,600,643	$ 1,770,709	$ 3,398,453	$ 3,659,721
Costs of operations:				
Cost of emission certificates	310,832	357,662	675,512	780,603
Store operating expenses	1,234,321	1,229,521	2,532,639	2,587,729
General and administrative expenses	286,571	299,965	606,956	591,460
Gain on sale of non-strategic assets	(200,728)	(72,267)	(200,728)	(72,267)
Goodwill impairment expense	365,378	-	365,378	-
Operating loss	(395,731)	(44,172)	(581,304)	(227,804)
Interest income (expense)				
Interest income	1,005	1,255	2,605	2,010
Interest expense	(58,516)	(68,573)	(116,163)	(156,469)
Interest expense, net	(57,511)	(67,318)	(113,558)	(154,459)
Net loss	$ (453,242)	$ (111,490)	$ (694,862)	$ (382,263)
Basic and diluted net loss per share	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)
Weighted average common shares outstanding, basic and diluted	77,303,463	34,688,166	63,581,102	34,688,166

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	$ (694,862)	$ (382,263)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	151,657	190,781
Goodwill impairment expense	365,378	-
Gain on sale of non-strategic assets	(200,728)	(72,267)
Stock issued for services	14,220	-
Share based compensation	15,000	-
Changes in operating assets and liabilities:		
Certificate and merchandise inventory	2,683	18,893
Other current assets	63,210	(29,231)
Other assets	(7,954)	2,664
Accounts payable and accrued liabilities	41,851	258,575
Other liabilities	14,680	22,650
Net cash provided by (used in) operating activities	(234,865)	9,802
Cash flows from investing activities:		
Proceeds from notes receivable	26,000	16,000
Proceeds from asset sales	157,500	50,000
Purchases of property and equipment	(1,123)	(19,844)
Net cash provided by investing activities	182,377	46,156
Cash flows from financing activities:		
Stock issued for debt	203,279	-
Proceeds from line of credit	767,759	1,609,100
Payments on line of credit	(1,030,855)	(1,632,700)
Proceeds from notes payable	125,000	-
Payments on notes payable	(13,971)	-
Payments on equipment financing obligations	(4,210)	(1,466)
Payments on capitalized leases	(14,541)	(14,405)
Net cash provided by (used in) financing activities	32,461	(39,471)
Net decrease in cash	(20,027)	16,487
Cash at beginning of period	65,854	54,121
Cash at end of period	$ 45,827	$ 70,608
Supplemental Information:		
Cash paid during the period for interest	$ 116,163	$ 56,613
Supplemental Disclosure of Non-Cash Activity:		
Note receivable from sale of assets	$ 60,000	$ 60,000

See accompanying notes to consolidated financial statements.

Speedemissions, Inc.
Notes to Consolidated Financial Statements

June 30, 2014
(Unaudited)

Note 1. Going Concern

The accompanying consolidated financial statements of Speedemissions, Inc. have been prepared on a going concern basis which contemplates the realization of assets and liquidation of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that may be necessary in the event the Company cannot continue as a going concern. References in this report to "Speedemissions," the "Company," "we," "us" and "our" mean Speedemissions Inc. and our consolidated subsidiaries.

Speedemissions has experienced recurring net losses which have caused an accumulated deficit of $21,239,803 at June 30, 2014 compared to an accumulated deficit of $20,544,723 at December 31, 2014. We had a working capital deficit of $2,051,399 at June 30, 2014 compared to a working capital deficit of $2,059,921 at December 31, 2013.

Our revenues for the quarter and six-month periods ended June 30, 2014 and the fiscal year ended December 31, 2013 were below our expectations and internal forecasts primarily as a result of fewer vehicle emissions tests and safety inspections being performed at our stores.

Our revenues for the quarter and six-month periods ended June 30, 2014 and for the fiscal year ended December 31, 2013 have been insufficient to attain profitable operations and to provide adequate levels of cash flow from operations. Our near term liquidity and ability to continue as a going concern is dependent on our ability to generate sufficient revenues from our store operations to provide sufficient cash flow from operations to pay our current level of operating expenses, to provide for inventory purchases and to reduce past due amounts owed to vendors and service providers. No assurances may be given that the Company will be able to achieve sufficient levels of revenues in the near term to provide adequate levels of cash flow from operations. Should an increase in revenues not materialize, we will seek to further reduce operating costs to bring them in line with reduced revenue levels. If the Company is unable to achieve near term profitability and generate sufficient cash flow from operations, and if the Company is unable to sufficiently reduce operating costs, we would need to raise additional capital or obtain additional borrowings beyond our existing line of credit facility. We currently have very limited access to capital, including the public and private placement of equity securities and additional debt financing. No assurances can be given that additional capital or borrowings would be available or, if available, that we would be able to complete a capital raise or financing on satisfactory terms, to allow us to continue as a going concern. As a result of the Company's history of losses and financial condition, there is substantial doubt about the ability of the Company to continue as a going concern. If the Company is unable to continue as a going concern, our shareholders will likely lose all of their investment in the Company.

On June 8, 2012, the Company entered into a revolving line of credit agreement (the "Credit Agreement") with TCA Global Credit Master Fund, LP ("TCA"), pursuant to which TCA agreed to loan the Company up to a maximum of $2,000,000 for working capital purposes. In June 2012, the Company obtained a loan from TCA in the amount of $350,000 to use for working capital purposes and, in October 2012, the Company entered into the First Amendment to Credit Agreement with TCA (the "Amended Credit Agreement") pursuant to which the Company received an additional loan in the amount of $550,000 to use for the purchase of five emissions testing stores owned by Auto Emissions Express, LLC, a Georgia corporation ("AEE"). On October 23, 2013, the Company entered into the Second

Amendment to Credit Agreement with TCA (the "Second Amended Credit Agreement"), pursuant to which TCA agreed to increase the revolving loan from $900,000 to $1,300,000 and, in connection therewith, the Company received an additional loan in the amount of $400,000 to finance the acquisition of the remaining seven emission testing centers owned by AEE and to provide working capital (see also Note 9 of the financial statements). While our line of credit facility of $1,300,000 is currently 52% of the maximum limit with an outstanding balance at August 8, 2014 of approximately $676,149, our line of credit matures on December 1, 2014 and we have no assurance it will be extended beyond that date.

On June 30, 2014, due to insufficient cash flow, we ceased making required monthly principal payments on our line of credit facility with TCA and are in default under the terms of the Credit Agreement as of the date of this report. On August 6, 2014, we received notice of Demand for Payment of $791,207 on or before Monday, August 19, 2014, by close of business. According to the notice, the demand is a result of failure to make timely payments. Also, demand is made of Richard Parlontieri personally, as Validity Guarantor, pursuant to that Validity Guaranty, dated June 8, 2012 and affirmed and ratified most recently on October 23, 2013. Under the terms of the guaranty, Mr. Parlontieri agreed that the borrowers would maintain ownership of all collateral and would refrain from disposing or encumbering any collateral without TCA Fund's express written consent. TCA alleges that Mr. Parlontieri has not complied with this agreement and is in default thereof. We do not agree with this action and are currently negotiating with TCA regarding options to remedy this default, but have no resolution as of the date of this report.

Therefore, our near term liquidity is dependent on our working capital and primarily on the revenues generated from our store operations. If we are unable to achieve near term profitability and generate sufficient cash flow from operations, and we are unable to sufficiently reduce operating costs, we would need to raise additional capital or obtain additional borrowings beyond this existing line of credit. There is no assurance that such financing or capital would be available or, if available, that we would be able to complete financing or a capital raise on satisfactory terms. During the six months ended June 30, 2014, our line of credit net borrowings decreased $263,096 to the outstanding balance of $676,149 at June 30, 2014 from $939,245 at December 31, 2013. At August 8, 2014, the outstanding balance on the loan facility was approximately $676,149, and our cash balances were approximately $16,214.

On May 29, 2014, the Company entered into a promissory note agreement (the "Promissory Note) with Thomas Chorba ("TC"), pursuant to which TC loaned the Company $50,000 for working capital purposes. Under the terms of the Promissory Note, the Company agreed to repay the loan, plus interest, for a total amount of $56,000 by December 1, 2015. Under the terms of the Promissory Note, the Company will make 18 monthly payments of $3,111 each which yields an effective annual interest rate of 7.8%.

On June 3, 2014, the Company entered into a loan agreement (the "Loan Agreement") with TVT Capital, LLC ("TVT"), pursuant to which TVT loaned the Company $75,000 for working capital purposes. Under the terms of the Loan Agreement, the Company agreed to repay the loan, plus interest, for a total amount of $112,098 by October 27, 2014. Under the terms of the Loan Agreement, TVT is authorized to make daily bank debits of $1,099 on each available banking day during the term of the loan which yields an effective annual interest rate of 49.5%.

During the prior two years, we made reductions in employee headcount, the number of emission testing stores, same store operating expenses, corporate overhead and other operating expenses. At June 30, 2014, our primary source of liquidity for cash flows was cash received from our store operations. We are dependent on our revenues in the very near term to provide sufficient cash flow from operations to pay our current level of operating expenses, to provide for inventory purchases and to reduce past due amounts owed to landlords, vendors and service providers. No assurances may be given that the cash received from our store operations will be sufficient to cover our ongoing operating expenses. If the cash received from our store operations is not sufficient, we would need to obtain additional credit facilities or raise additional capital to continue as a going concern and to execute our business plan. There is no assurance that such financing or capital would be available or, if available, that we would be able to complete financing or a capital raise on satisfactory terms.

Our revenues during the year ended December 2013, as well as the quarter and six-month periods ended June 30, 2014, have been insufficient to attain profitable operations and to provide adequate levels of cash flow from operations. During the year ended December 31, 2013, as well as the quarter and six-month periods ended June 30, 2014, due to insufficient cash flow from operations and borrowing limitations under our line of credit facility, we have been extending payments owed to landlords and vendors beyond normal payment terms and deadlines. Until such vendors are paid within normal payment terms, no assurances can be given that required services and materials needed to support operations will continue to be provided. In addition, no assurances can be given that vendors will not pursue legal means to collect past due balances owed. Any interruption of services or materials would likely have an adverse impact on our operations and could impact our ability to continue as a going concern.

On December 13, 2013 and on January 10, 2014, the Circuit Court in the Twelfth Judicial Circuit in and for Sarasota County, Florida (the "Court"), entered an Order Granting Approval of Settlement Agreement (the "Order") approving, among other things, the fairness of the terms and conditions of an exchange pursuant to Section 3(a)(10) of the Securities Act of 1933 (the "Securities Act"), in accordance with a Settlement Agreement (the "Settlement Agreement") between the Company and IBC Funds, LLC, a Nevada limited liability company ("IBC"), in the matter entitled IBC Funds, LLC, vs. SpeedEmissions, Inc., Case Nos. 2013 CA 008762 NC and 2014 CA 000153 (the "Actions"). IBC

commenced the Actions against us to recover an aggregate of $205,643 of past-due accounts payable, which IBC had purchased from certain of our vendors pursuant to the terms of separate claim purchase agreements between IBC and each of the respective vendors (the “Assigned Accounts), plus fees and costs (the “Claim”). The Assigned Accounts relate to certain research, technical, development and legal services. The Order provides for the full and final settlement of the Claim and the Action. The Settlement Agreement became effective and binding on December 13, 2013 and January 10, 2014.

The Settlement Agreement provides that in no event shall the number of shares of common stock issued by the Company to IBC or its designee in connection with the Settlement Agreement, when aggregated with all other shares of common stock then beneficially owned by IBC and its affiliates (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) and the rules and regulations thereunder), result in the beneficial ownership by IBC and its affiliates (as calculated pursuant to Section 13(d) of the Exchange Act and the rules and regulations thereunder) at any time of more than 9.99% of the common stock of the Company.

Furthermore, the Settlement Agreement provides that, for so long as IBC or any of its affiliates hold any shares of common stock of the Company, the Company and its affiliates are prohibited from, among other things, voting any securities of the Company in favor of: (1) an extraordinary corporate transaction, such as a merger, reorganization or liquidation, involving the Company or any of its subsidiaries, (2) a sale or transfer of a material amount of the Company's assets or its subsidiaries' assets, (3) any material change in the Company's present capitalization or dividend policy, (4) any other material change in the Company's business or corporate structure, (5) a change in the Company's charter, bylaws, or instruments corresponding thereto (6) causing a class of the Company's securities to be delisted from a national securities exchange or to cease to be authorized to be quoted in an inter-dealer quotation system of a registered national securities association, (7) causing a class of the Company's equity securities to become eligible for termination of registration pursuant to Section 12(g)(4) of the Exchange Act, (8) terminating the Company's transfer agent, (9) taking any action which would impede the purposes and objects of the Settlement Agreement or (10) taking any action, intention, plan or arrangement similar to any of those enumerated above. These prohibitions may not be modified or waived without further order of the Court.

Note 2: Nature of Operations

Description of Business

Speedemissions is one of the largest test-only emissions testing and safety inspection companies in the United States. We perform vehicle emissions testing and safety inspections in certain cities in which vehicle emissions testing is mandated by the United States Environmental Protection Agency ("EPA"). As of June 30, 2014, we operated 33 vehicle emissions testing and safety inspection stations under the trade names of Speedemissions and Auto Emissions Express (Atlanta, Georgia and St. Louis, Missouri) and Just Emissions (Salt Lake City, Utah). We also operate four mobile testing units in the Atlanta, Georgia area which service automotive dealerships and local government agencies. We manage our operations based on these four regions, and we have one reportable segment.

We use computerized emissions testing and safety inspections equipment that test vehicles for compliance with vehicle emissions and safety standards. We purchase or lease these computerized testing systems from state approved equipment vendors. Our revenues are mainly generated from the testing or inspection fees charged to the registered owner of the vehicle. As a service to our customers, we also sell automotive parts and supplies such as windshield wipers, taillight bulbs and gas caps. In addition, we perform a limited amount of other services, including oil changes and headlight restorations, at select locations. However, we do not provide major automotive repair services.

On June 22, 2010, the Company announced the launch of its first iPhone application, Carbonga. Carbonga diagnoses an automobile's computer system using the on board diagnostic port on vehicles that were produced since 1996. Carbonga can check over 2,000 vehicle fault codes. We launched version two of Carbonga on February 16, 2011. Version two improved the speed and performance of the application and has additional features, including the ability to receive vehicle safety recalls and Technical Service Bulletins, for an annual subscription fee.

During the quarter ended September 30, 2012, we formed a new company, SpeedEmissions Car Care, LLC, through which we will franchise our vehicle emissions and safety inspections store model. Franchises will be available to qualified store operators who have an interest in either a single or multi-location opportunity in select cities where emission testing/safety inspections and other automotive services are required. We signed an agreement with an Atlanta based franchise consulting company to assist with our plan to franchise our business model into a number of new U.S. markets. We believe that the franchising vehicle will continue our growth strategy and increase our retail store presence. After securing approval for all the necessary disclosure documents, we began marketing franchises in the fourth quarter of 2012. However, as of June 30, 2014, we have sold no franchises.

On November 30, 2012, we completed the acquisition of certain operating assets comprising five emission testing centers owned by AEE. At the time AEE owned and operated 12 emission testing centers in the Atlanta, Georgia area, including the five emission testing centers that we purchased.

On April 11, 2013, we sold the assets comprising three of our Texas stores for $110,000. We received $50,000 cash at closing and a note receivable for $60,000. The principal amount of the note is payable in equal monthly payments over a 12-month period plus interest at 5.0% per annum.

In June 2013, we announced an expansion in our business model pursuant to which we plan to move into a new market with the opening of up to 24 emission testing stores over the next two years, assuming we obtain the financing to do this. We have engaged an investment banking firm to assist us in raising up to $3,000,000 in new capital to serve as a source of financing for our planned expansion. There is no assurance that we will be successful in raising this capital for our planned business expansion. However, if we are successful in raising the necessary capital, we anticipate that the expansion would consist of three phases beginning with the first eight to 10 stores opening in late 2014 and continuing through 2016. We believe these stores would provide an easy, convenient way for shoppers to have their vehicle emission tests performed while patronizing all the retailers in the center. In addition, under the current plan, the new emission testing stores would sell a select amount of related automotive merchandise.

On October 25, 2013, we completed the acquisition of certain operating assets comprising the remaining seven emission testing centers owned by AEE. AEE originally owned and operated 12 emission testing centers in the Atlanta, Georgia area, consisting of the seven emission testing centers that we purchased in October 2013 and the five emission testing centers that we purchased in November 2012 as discussed above.

During the three months ended June 30, 2014, we sold the assets comprising six of our Houston, Texas stores for a combined amount of $220,000, consisting of $152,500 in cash and a note receivable for $67,500. The principal amount of the note is payable in equal monthly payments over a 12-month period with no interest. After taking into consideration the sale of these six emission testing centers, we now operate 33 emission testing centers in Atlanta, Georgia, St. Louis, Missouri and Salt Lake City, Utah metropolitan areas, plus four mobile testing units in the Atlanta, Georgia area.

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, 2013.

The Company has evaluated subsequent events through the date of the 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.

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

Note 3: 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 consolidated 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, 2013.

Fair Value Measurements

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 as 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.

- 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 has no Level 3 assets or liabilities.

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, capital lease obligations, notes receivable and note payable approximate carrying value based upon current borrowing rates.

Note 4: Inventory

Inventory at June 30, 2014 consisted of certificate and merchandise inventory and was $23,656 and $2,260, respectively. Inventory at December 31, 2013 consisted of certificate and merchandise inventory and was $25,129 and $3,470, respectively.

Note 5: Notes Receivable

On September 14, 2010, the Company settled a lawsuit originally filed in 2006 against a former manager. The Company alleged the manager, while employed by the Company, breached his fiduciary duty by purchasing property in Texas where one of the Company's testing facilities he managed was located.

Under the provisions of the settlement agreement, the Company will receive the sum of $125,000 payable in monthly installments of $1,000 per month for seventy-two months. The balance of $53,000 will be due and payable to the Company on June 1, 2016. The note receivable is collateralized by a second lien on property owned by the former manager. The note receivable and gain from the settlement was computed and recorded at its present value of $106,881 using an interest rate equal to prime rate plus 0.5%, which was 3.75%, which approximates rates offered in the market for notes receivable with similar terms and conditions. The Company recognized a gain from the legal settlement in the amount of $106,881 during 2010.

On April 11, 2013, the Company sold the assets comprising three of its Texas stores for $110,000. The Company received $50,000 cash at closing and a note receivable for $60,000. The principal amount of the note is payable in equal monthly payments over a 12-month period plus interest at 5.0% per annum.

During the three months ended June 30, 2014, we sold the assets comprising six of our Houston, Texas stores for a combined amount of $220,000. We received $152,500 cash and a note receivable for $67,500. The principal amount of the note is payable in equal monthly payments over a 12-month period with no interest. The balance of notes receivable was $131,963 and $93,954 at June 30, 2014 and December 31, 2013, respectively.

Note 6: Property and Equipment

Property and equipment at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014	December 31, 2013

Buildings	$	359,412	$	485,667
Emission testing and safety inspection equipment		1,383,559		1,492,977
Furniture, fixtures and office equipment		121,203		138,489
Vehicles		26,827		26,827
Leasehold improvements		244,334		279,456
		2,135,335		2,423,416
Less: accumulated depreciation and amortization		1,846,270		2,024,519
	$	289,065	$	398,897

Note 7: Goodwill

The Company measures the fair value of reporting units using discounted future cash flows based on our forward-looking projections. Because the business is assumed to continue in perpetuity, the discounted future cash flow includes a terminal value. The long-term growth assumptions incorporated into the discounted cash flow calculation reflect our long-term view of the market. Each year, the Company re-evaluates the assumptions used to reflect changes in the business environment.

At June 30, 2014, we compared the fair value of the individual reporting units for which the goodwill relates to their respective carrying amounts, including goodwill. In the opinion of management, goodwill was impaired as June 30, 2014. The impairment related to the goodwill recorded from the acquisition of Just, Inc. on September 8, 2005. The 2014 goodwill impairment expense was determined to be $365,378 reducing the carrying value for Just, Inc. goodwill from $1,240,152 as of December 31, 2013 to $874,774 as of June 30, 2014.

Note 8: Accrued Liabilities

Accrued liabilities at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014	December 31, 2013
Professional fees	$ 65,113	$ 22,500
Payroll	70,681	72,445
Property taxes	205,242	164,079
Other	249,567	303,589
	$ 590,603	$ 562,613

Note 9: Equipment Financing Agreements

The balance outstanding under equipment financing agreements as of June 30, 2014 and December 31, 2013 was $19,736 and $23,946, respectively.

Note 10: Notes Payable and Revolving Credit Facility

Bridge Note Agreement

On November 11, 2010, the Company entered into a $55,000 bridge note agreement (the “Note”) with an affiliate, GCA Strategic Investment Fund, Limited (“GCA”). The funds received from the Note were used for general working capital purposes. The Note bore 0% interest and was due in full on November 11, 2012. The Note is subject to mandatory prepayment upon a change of control, as defined in the Note. In consideration for the receipt of the Note, the Company issued GCA 4,000,000 warrants to purchase the Company’s common stock at $0.50 per share. On April 15, 2011, the Board of Directors of the Company and GCA agreed to amend GCA’s 4,000,000 warrants whereby the exercise price of the warrants would be reduced to $0.016 from $0.50. The closing price of the Company’s common stock was $0.013 on April 14, 2011. The warrants were exercised on April 18, 2011 at the reduced exercise price of $0.016 per share. The Note was extended on November 6, 2012, establishing a new maturity date of November 6,

2013, and a maturity value of $60,000, and the Note was extended again on November 6, 2013, establishing a new maturity date of November 6, 2014, and a maturity value of $65,000. The $5,000 increase in maturity value of the Note upon each extension was a financial requirement to accomplish the Note's renewal. The Note had a balance due of $60,000 on June 30, 2014 and December 31, 2013.

Revolving Credit Facility

On June 8, 2012, the Company paid off and cancelled its revolving line of credit agreement with Regions Bank, pursuant to which the Company had borrowed up to $100,000 in order to pay trade payables and for working capital purposes. Funds to pay off the Regions Bank revolving line of credit came from a new loan facility entered into on June 8, 2012 (as described below).

As described in Note 1, on June 8, 2012, the Company entered into the Credit Agreement with TCA, pursuant to which TCA agreed to loan the Company up to a maximum of $2,000,000 for working capital purposes. In June 2012, the Company obtained a loan from TCA in the amount of $350,000 to use for working capital purposes and, in October 2012, the Company entered into the Amended Credit Agreement pursuant to which the Company received an additional loan in the amount of $550,000 to use for the purchase of five emissions testing stores from AEE. On October 23, 2013, the Company entered into the Second Amended Credit Agreement with TCA, pursuant to which TCA agreed to increase the revolving loan from $900,000 to $1,300,000 and, in connection therewith, the Company received an additional loan in the amount of $400,000 to purchase seven emissions testing stores from AEE and to provide working capital. Total loan origination costs paid in conjunction with the above loans totaled $239,450, with $19,644 and $119,848 expensed in years ended December 31, 2012 and 2013, respectively, and $59,975 expensed during the six-months ended June 30, 2014. Unamortized loan origination costs of $39,983 remain on our balance sheet as of June 30, 2014. Our line of credit matures on December 1, 2014 and we have no assurance it will be extended beyond that date. As noted above, on June 30, 2014, due to insufficient cash flow, we ceased making required monthly principal payments on our line of credit facility and are in default of the terms of the Credit Agreement as of the date of this report. On August 6, 2014, we received notice of Demand for Payment of $791,206.79 on or before Monday, August 19, 2014, by close of business. According to the notice, the demand is a result of failure to make timely payments. Also, demand is made of Richard Parlontieri personally, as Validity Guarantor, pursuant to that Validity Guaranty, dated June 8, 2012 and affirmed and ratified most recently on October 23, 2013. Under the terms of the guaranty, Mr. Parlontieri agreed that the borrowers would maintain ownership of all collateral and would refrain from disposing or encumbering any collateral without TCA Fund's express written consent. TCA alleges that Mr. Parlontieri has not complied with this agreement and is in default thereof. We are negotiating with TCA regarding options to remedy this default, but have no resolution as of the date of this report.

We are negotiating with TCA on options to remedy this default, but have no resolution as of the date of this report. If we are unable to remedy this default, in accordance with the terms of the Credit Agreement, TCA may declare the Revolving Loan Commitment terminated and all obligations to be immediately due and payable.

The annual interest rate on the note is 10% per annum. The Credit Agreement is collateralized by the Company's inventory, accounts receivable, equipment, general intangibles and fixtures. If the Company prepays the outstanding balance in full, prior to maturity, a 5% prepayment penalty will be assessed. The Company is subject to various financial covenants under the Credit Agreement. These financial covenants primarily involve monthly, quarterly and annual financial reports to be provided to TCA. The balance due under the Credit Agreement was $676,149 and $939,245 at June 30, 2014 and December 31, 2013, respectively.

Promissory Note Agreement

As described in Note 1, on May 29, 2014, the Company entered into the Promissory Note with TC, pursuant to which TC loaned the Company $50,000 for working capital purposes. Under the terms of the Promissory Note, the Company agreed to repay the loan, plus interest, for a total amount of $56,000 by December 1, 2015. Under the terms of the Promissory Note, the Company will make 18 monthly payments of $3,111 each which yields an effective annual interest rate of 7.8%. The Promissory Note had a balance due of $50,000 on June 30, 2014.

Term Loan Agreement

As described in Note 1, on June 3, 2014, the Company entered into the Loan Agreement with TVT, pursuant to which TVT loaned the Company $75,000 for working capital purposes. Under the terms of the Loan Agreement, the Company agreed to repay the loan, plus interest, for a total amount of $112,098 by October 27, 2014. Under the terms of the Loan Agreement, TVT is authorized to make daily bank debits of $1,099 on each available banking day during the term of the loan which yields an effective annual interest rate of 49.5%. The balance due under the Loan

Agreement was $61,029 at June 30, 2014.

Note 11: Net Loss Per Share

Basic earnings per share (“EPS”) or net loss per share represents net 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.

The following table sets forth the computation for basic and diluted net loss per share for the three and six-month periods ended June 30, 2014 and 2013, respectively:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Net loss (A)	$ (453,242)	$ (111,490)	$ (694,862)	$ (382,263)
Weighted average common shares - basic (B)	77,303,463	34,688,166	63,581,102	34,688,166
Effect of dilutive securities				
Diluted effect of stock options (1)	—	—	—	—
Diluted effect of stock warrants (1)	—	—	—	—
Diluted effect of unrestricted Preferred Series A Shares (2)	—	—	—	—
Weighted average common shares - diluted (C)	77,303,463	34,688,166	63,581,102	34,688,166
Net loss per share - basic (A/B)	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)
Net loss per share - diluted (A/C)	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)

(1) As a result of the Company's net loss for the three and six-month periods ended June 30, 2014 and 2013, aggregate Common Stock Equivalents of 431,000 and 59,000 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 and six-month periods ended June 30, 2014 and 2013, respectively. These Common Stock Equivalents could be dilutive in future periods.

(2) As a result of the Company's net loss in the three and six-month periods ended June 30, 2014 and 2013, 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 and six-month periods ended June 30, 2014 and 2013. These Common Stock Equivalents could be dilutive in future periods.

Note 12: 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 June 30, 2014 and December 31, 2013. For financial statement purposes, the Preferred A Stock has been presented outside of shareholders' deficit on the Company's consolidated balance sheets as a result of certain conditions that are outside the control of the Company that could trigger redemption of the securities.

Common Stock

The Company issued 54,233,059 common shares during the six-month period ended June 30, 2014. The 54,233,059 common shares consisted of 1,500,000 shares issued to Company employees for services previously rendered, 625,000 shares issued to an investment banking firm for consulting services and 52,108,059 shares issued to retire debt and pay related financing fees. During the six-month period ended June 30, 2014, the Company recorded expenses of $15,000, $17,730 and $9,375 for employee compensation, financing fees and consulting services, respectively, related to these common stock issuances. These expenses are recorded in the Company's general and

administrative expenses for the six-month period ended June 30, 2014. The Company had 93,548,914 common shares outstanding as of June 30, 2014.

Note 13: Share-Based Compensation

The Company has several share-based compensation plans under which employees and non-employee directors receive stock options. Additionally, the Company has issued shares of its common stock as compensation to employees and payments of services rendered by third parties. 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). Fair value of the award is calculated using the Black-Scholes model or based on the fair value of the shares issued for the services provided, whichever is more accurately determinable. Such value is recognized as an 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 are 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 $0 during the three months ended June 30, 2014 and 2013 and $42,105 and $0 during the six months ended June 30, 2014 and 2013, respectively. Share-based compensation, when recorded, is included in general and 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 outstanding under the Company's stock option plans during the six-month period ended June 30, 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Grant-date Fair Value
Options outstanding at December 31, 2013	59,000	$ 0.61	
Granted	—	—	—
Expired	—	—	
Options outstanding at June 30, 2014	59,000	$ 0.61	

The aggregate intrinsic value of options outstanding and exercisable at June 30, 2014 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 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 six months ended June 30, 2014.

As of June 30, 2014, there was no unrecognized share-based compensation expense related to non-vested stock options. There were no options that vested during the six months ended June 30, 2014 and 2013.

There were 59,000 options issued and outstanding under the Company's 2001 Stock Option Plan, the Amended and Restated 2005 Omnibus Stock Grant and Option Plan, Speedemissions Inc. 2006 Stock Grant and Option Plan and the 2008 Stock Grant and Option Plan (collectively, the "Option Plans") as of June 30, 2014 and December 31, 2013. There were no options granted under these plans during the six-month period ended June 30, 2014. There were no options exercised during the six-month periods ended June 30, 2014 and 2013.

Stock Warrants

There were 372,000 common stock warrants outstanding as of June 30, 2014, and there were no warrants granted or exercised during the six-month period ended June 30, 2014.

Note 14: Income Taxes

No provision for income taxes has been reflected for the three- and six-month periods ended June 30, 2014 and 2013 as the Company has sufficient net operating loss carry forwards to offset taxable income.

Note 15: Contingencies

From time to time, the Company may be involved in claims that arise out of the normal course of its business. In the opinion of management, we are not currently involved in any legal proceedings which would have a material adverse effect on the Company's financial position, results of operations or cash flows.

Note 16: Subsequent Events

The Company has evaluated subsequent events through the date of the filing its Form 10-Q with the Securities and Exchange Commission and 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.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Three Months Ended June 30, 2014 and 2013

Our revenue, cost of emission certificates, store operating expenses, general and administrative expenses, gain from disposal of non-strategic assets and operating loss for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 were as follows:

	Three Months Ended June 30		Percentage
	2014	2013	Change
Revenue	$ 1,600,643	$ 1,770,709	(9.6%)
Cost of emission certificates	310,832	357,662	(13.1%)
Store operating expenses	1,234,321	1,229,521	0.4%
General and administrative expenses	286,571	299,965	(4.5%)
Gain from sale of non-strategic assets	(200,728)	(72,267)	177.8%
Goodwill impairment expense	365,378	-	n/a
Operating loss	$ (395,731)	$ (44,172)	795.9%

Revenue. Revenue decreased $170,066, or (9.6%), to $1,600,643 in the three-month period ended June 30, 2014 compared to $1,770,709 in the three month period ended June 30, 2013. The $170,066 decrease in revenue was primarily due to a $298,163 revenue decrease due to the permanent closing of five emission testing stores and the sale of 13 Texas stores during 2013 and 2014, mitigated by a $136,041 increase in revenue resulting from 2014 revenue from seven stores acquired in October 2013. The decrease in revenue over the comparable period due to a decrease in same store revenue was $7,944 or (0.6%).

Cost of emission certificates. Cost of emission certificates decreased $46,830, or (13.1%), in the three month period ended June 30, 2014 and was $310,832, or 19.4% of revenues, compared to $357,662, or 20.2% of revenues, in the three month period ended June 30, 2013. The decrease in cost of emission certificates over the comparable period was due primarily to the sale of six Texas stores where cost of emission certificates was approximately 34% of revenue while the seven stores opened in Georgia had cost of emission certificates of approximately 22% of revenue.

Store operating expenses. Store operating expenses increased $4,800, or 0.4%, in the three-month period ended June 30, 2014 and was $1,234,321, or 77.1% of revenues, compared to $1,229,521, or 69.4% of revenues, in the three month period ended June 30, 2013. The $4,800 increase in store operating expenses was attributable to a net decrease of approximately $124,000 resulting from closed Texas stores offset by an increase of approximately $109,000 from newly opened Georgia stores plus additional net increases of about $20,000 from remaining stores.

General and administrative expenses. Our general and administrative expenses decreased $13,394 or 4.5% to $286,571 in the three month period ended June 30, 2014 from $299,965 in the three month period ended June 30, 2013. The decrease in general and administrative expenses during the three month period June 30, 2014 was primarily due to decreases of approximately $13,000 and $9,000 in seminar costs and legal and accounting fees, respectively, partially offset by approximately an $8,000 increase in other professional fees.

Gain from disposal of non-strategic assets. During the three months ended June 30, 2014, we sold the assets comprising six of our Texas stores for a combined amount of $220,000. We received $152,500 cash and a note receivable for $67,500. The principal amount of the note is payable in equal monthly payments over a 12-month period with no interest. The net book value of the assets sold was $19,272 resulting in a recorded gain of $200,728 on the asset sale. On April 11, 2013, the Company sold the assets comprising three of its Texas stores for $110,000. The Company received $50,000 cash at closing and a note receivable for $60,000. The net book value of the assets sold was $37,733 resulting in a recorded gain of $72,267 on the asset sale.

Goodwill impairment expense. We determined that goodwill recorded from the acquisition of the following business was impaired as of June 30, 2014.

2013 Goodwill Impairment:

	Acquisition Date	Goodwill Impairment Expense
Just, Inc..	September 8, 2005	$ 365,378

The estimated fair value of goodwill was determined using discounted cash flow models. Due to an overall decline in the financial performance and anticipated future performance of these seven Utah stores acquired from Just, Inc., it is estimated that future cash flows from these seven stores would not be sufficient to cover the carrying value of their goodwill. The amount of goodwill impaired in 2014 was $365,378 and is recorded in the accompanying consolidated statements of operations for the three months ended June 30, 2014.

Operating loss. Our operating loss decreased by $351,559 in the three-month period ended June 30, 2014 and was ($395,731) compared to an operating loss of ($44,172) in the three month period ended June 30, 2013. The increase in our operating loss was primarily due to the $365,378 goodwill impairment expense partially offset by the $200,728 gain from disposal of non-strategic assets. Without the goodwill impairment expense in 2014 and asset sales in 2014 and 2013, our loss in the three months ended June 30, 2014increased by $114,642 due primarily to the previously discussed decrease in revenues.

Interest income, interest expense, net loss and basic and diluted net loss per share. Our interest income, interest expense, net loss and basic and diluted net loss per share for the three-month period ended June 30, 2014 as compared to the three month period ended June 30, 2013 is as follows:

	Three Months Ended June 30,	
	2014	2013
Operating loss	$ (395,731)	$ (44,172)
Interest income	1,005	1,255
Interest expense	(58,516)	(68,573)
Net loss	$ (453,242)	$ (111,490)
Basic and diluted net loss per share	$ (0.01)	$ (0.00)
Weighted average shares outstanding, basic and diluted	77,303,463	34,688,166

The Company incurred net interest expense of $57,511 and $67,318 during the three month periods ended June 30, 2014 and 2013, respectively. The decrease of $10,057 in interest expense during the quarter ended June 30, 2014, compared to 2013, was primarily the result of a decrease in the amortization of loan origination costs associated with

the line of credit.

Net loss and basic and diluted loss per share. Net loss was ($453,242) and ($111,490) in the three month period ended June 30, 2014 and 2013, respectively. Basic and diluted net loss per share was ($0.00) in both the three month periods ended June 30, 2014 and 2013.

Six Months Ended June 30, 2014 and 2013

Our revenue, cost of emission certificates, store operating expenses, general and administrative expenses, gain from disposal of non-strategic assets and operating loss for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 were as follows:

	Six Months Ended June 30		Percentage
	2014	2013	Change
Revenue	$ 3,398,453	$ 3,659,721	(7.1%)
Cost of emission certificates	675,512	780,603	(13.5%)
Store operating expenses	2,532,639	2,587,729	(2.1%)
General and administrative expenses	606,956	591,460	2.6%
Gain from sale of non-strategic assets	(200,728)	(72,267)	177.8%
Goodwill Impairment expense	365,378	-	n/a
Operating loss	$ (581,304)	$ (227,804)	155.2%

Revenue. Revenue decreased $261,268, or (7.1%), to $3,398,453 in the six-month period ended June 30, 2014 compared to $3,659,721in the six-month period ended June 30, 2013. The $261,268 decrease in revenue was primarily due to a $567,231 revenue decrease due to the permanent closing of five emission testing stores and sale of 13 Texas stores during 2013 and 2014, mitigated by a $285,173 increase in revenue resulting from 2014 revenue from seven stores acquired in October 2013. The decrease in revenue over the comparable period due to a decrease in same store revenue was $20,790 or (0.9%).

Cost of emission certificates. Cost of emission certificates decreased $105,090, or (13.5%), in the six-month period ended June 30, 2014 and was $675,512, or 19.9% of revenues, compared to $780,603, or 21.3% of revenues, in the six-month period ended June 30, 2013. The decrease in cost of emission certificates over the comparable period was due primarily to the sale of six Texas stores where cost of emission certificates was approximately 34% of revenue while the seven stores opened in Georgia had cost of emission certificates of approximately 22% of revenue.

Store operating expenses. Store operating expenses decreased $55,090, or (2.1%), in the six-month period ended June 30, 2014 and was $2,532,639, or 74.5% of revenues, compared to $2,587,729, or 70.7% of revenues, in the six-month period ended June 30, 2013. The $55,090 decrease in store operating expenses was attributable a net decrease of approximately $274,000 resulting from closed Texas stores offset by an increase of approximately $208,000 from newly opened Georgia stores plus additional net increases of about $11,000 from remaining stores.

General and administrative expenses. Our general and administrative expenses increased $15,495, or 2.6%, to $606,956 in the six-month period ended June 30, 2014 from $591,460 in the six-month period ended June 30, 2013. The increase in general and administrative expenses during the six-month period June 30, 2014 was primarily due to increases of approximately $15,000, $12,000 and $10,000 in stock compensation expense, finance charges and bank charges, respectively, partially offset by an approximately $22,000 decrease in legal and accounting fees.

Gain from sale of non-strategic assets. During the six months ended June 30, 2014, we sold the assets comprising six of our Texas stores for a combined amount of $220,000. We received $152,500 cash and a note receivable for $67,500. The principal amount of the note is payable in equal monthly payments over a 12-month period with no interest. The net book value of the assets sold was $19,272 resulting in a recorded gain of $200,728 on the asset sale. On April 11, 2013, the Company sold the assets comprising three of its Texas stores for $110,000. The Company received $50,000 cash at closing and a note receivable for $60,000. The net book value of the assets sold was $37,733 resulting in a recorded gain of $72,267 on the asset sale.

Goodwill impairment expense. We determined that goodwill recorded from the acquisition of the following business was impaired as of June 30, 2014.

2013 Goodwill Impairment:

	Acquisition Date	Goodwill Impairment Expense
Just, Inc..	September 8, 2005	$ 365,378

The estimated fair value of goodwill was determined using discounted cash flow models. Due to an overall decline in the financial performance and anticipated future performance of these seven Utah stores acquired from Just, Inc., it is estimated that future cash flows from these seven stores would not be sufficient to cover the carrying value of their goodwill. The amount of goodwill impaired in 2014 was $365,378 and is recorded in the accompanying consolidated statements of operations for the six months ended June 30, 2014.

Operating loss. Our operating loss increased by $353,500 in the six-month period ended June 30, 2014 and was ($581,304) compared to an operating loss of ($227,804) in the six-month period ended June 30, 2013. The increase in our operating loss was primarily due to the $365,378 goodwill impairment expense partially offset by the $200,728 gain from disposal of non-strategic assets. Without the goodwill impairment expense in 2014 and asset sales in 2014 and 2013, our loss increased by $116,583 due primarily to the previously discussed decrease in revenues.

Interest income, interest expense, net loss and basic and diluted net loss per share. Our interest income, interest expense, net loss and basic and diluted net loss per share for the six-month period ended June 30, 2014 as compared to the six-month period ended June 30, 2013 are as follows:

	Six Months Ended June 30,	
	2014	2013
Operating loss	$ (581,304)	$ (227,804)
Interest income	2,605	2,010
Interest expense	(116,163)	(156,469)
Net loss	$ (694,862)	$ (382,263)
Basic and diluted net loss per share	$ (0.01)	$ (0.01)
Weighted average shares outstanding, basic and diluted	63,581,102	34,688,166

The Company incurred net interest expense of $113,558 and $154,459 during the six-month periods ended June 30, 2014 and 2013, respectively. The decrease of $40,306 in interest expense during the six months ended June 30, 2014, compared to 2013, was primarily the result of a decrease in the amortization of loan origination costs associated with the line of credit.

Net loss and basic and diluted net loss per share. Net loss was ($694,862) and ($382,263) in the six-month periods ended June 30, 2014 and 2013, respectively. Basic and diluted net loss per share was ($0.01) in both the six-month periods ended June 30, 2014, and 2013.

Liquidity and Capital Resources

Introduction

Our net cash position decreased by $20,027 during the six months ended June 30, 2014 primarily resulting from cash used in operations, while our total liabilities decreased by $114,070, primarily as a result a $263,096 decrease in our line of credit. Our near term liquidity and ability to continue as a going concern is dependent on our ability to generate sufficient revenues from our store operations to provide sufficient cash flow from operations to pay our current level of operating expenses, to provide for inventory purchases and to reduce past due amounts owed to vendors and service providers. No assurances may be given that the Company will be able to achieve sufficient levels of revenues in the near term to provide adequate levels of cash flow from operations. If the Company is unable to achieve near term profitability and generate sufficient cash flow from operations, we would need to raise additional capital or obtain additional borrowings beyond our existing line of credit facility. We currently have very limited access to capital, including the public and private placement of equity securities and additional debt financing. No assurances can be given that additional capital or borrowings would be available to allow us to continue as a going concern. If the Company is unable to continue as a going concern, our shareholders will likely lose all of their investment in the Company.

Cash Requirements

For the six months ended June 30, 2014, our net cash used in operating activities was $234,865 compared to net cash provided by operations of $9,802 in the six months ended June 30, 2013. Negative operating cash flows during the six months ended June 30, 2014 were primarily created by a net loss of $329,484 and a $200,728 gain on sale of non-strategic assets reduced by goodwill impairment expense of $365,378, depreciation and amortization of $151,657, a decrease in other assets of $63,210 and an increase of $41,851 in accounts payable and accrued liabilities.

Positive operating cash flows during the six months ended June 30, 2013 were primarily created by an increase of $258,575 in accounts payable and accrued liabilities plus depreciation and amortization of $190,781 reduced by a net loss of $382,263 and a $72,267 gain on sale of non-strategic assets.

Sources and Uses of Cash

Net cash provided by investing activities was $182,377 for the six months ended June 30, 2014 compared to net cash provided by investing activities of $46,156 for the six months ended June 30, 2013. The net cash provided by investing activities during the six months ended June 30, 2014 was related to proceeds from non-strategic asset sales of $157,500 and proceeds from a note receivable of $26,000. The net cash provided by investing activities during the six months ended June 30, 2013 was related to proceeds from a note receivable of $16,000 and proceeds from non-strategic asset sales of $50,000, offset by capital expenditures of $19,844.

Net cash provided by financing activities for the six months ended June 30, 2014 was $32,461 compared to net cash used in financing activities of $39,471 for the six months ended June 30, 2013. During the six months ended June 30, 2014, we issued 52,108,059 shares of our common stock in exchange for $203,279 of vendor debt and received $125,000 from increases in notes payable. We made a net reduction of $263,096 in our line of credit and made principal payments of $13,970 and $14,541 on notes payable and capital leases, respectively. During the six months ended June 30, 2013, we made a net reduction of $23,600 in our line of credit and made principal payments of $1,466 and $14,405 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 long-lived assets and goodwill, created as the result of business acquisitions, and valuation of the allowance provided against deferred tax assets as key to an understanding of our financial statements. These are important accounting policies that require management's most difficult, subjective judgments.

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 4. 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 June 30, 2014 (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 June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the internal controls and procedures 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 six months ended June 30, 2014, the Company's Chief Executive Officer and Chief Financial Officer have 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

From time to time, the Company may be involved in claims that arise out of the normal course of its business. In the opinion of management, we are not currently involved in any legal proceedings which would have a material adverse effect on the Company's financial position, results of operations or cash flows.

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

During the six months ended June 30, 2014, we issued 52,108,059 shares of our common stock in exchange for $203,279 of vendor debt.

ITEM 3 Defaults Upon Senior Securities

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

ITEM 4 Mine safety disclosures

The disclosures under this Item are not applicable to the Company.

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	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: August 13, 2014	By:	/s/ Richard A. Parlontieri Richard A. Parlontieri President, Chief Executive Officer
Date: August 13, 2014	By:	/s/ Dannie Daugherty Jr. Dannie Daugherty Jr. Chief Financial Officer