

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

SWISHER HYGIENE INC. AND SUBSIDIARIES

Consolidated Financial Statements as of December 31, 2014 and 2013, and for the Three Years Ended December 31, 2014

Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-4
Consolidated Statements of Operations and Comprehensive Loss	F-5
Consolidated Statements of Equity	F-6
Consolidated Statements of Cash Flows	F-7
Notes to Consolidated Financial Statements	F-8

Report of Independent Registered Public Accounting Firm

Board of Directors
Swisher Hygiene Inc. and Subsidiaries
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Swisher Hygiene Inc. and Subsidiaries (the "Company") as of December 31, 2014 and 2013 and the related consolidated statements of operations and comprehensive loss, equity, and cash flows for each of the three years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Swisher Hygiene Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has not generated positive cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also audited, in accordance with the Standards of the Public Company Accounting Oversight Board (United States), Swisher Hygiene Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 31, 2015 expressed an adverse opinion thereon.

/s/ BDO USA, LLP
Charlotte, North Carolina

March 31, 2015

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Swisher Hygiene Inc.
Charlotte, NC

We have audited Swisher Hygiene Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Swisher Hygiene Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses have been identified and described in management's assessment. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and this report does not affect our report dated March 31, 2015 on those financial statements.

In our opinion, Swisher Hygiene Inc. did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Swisher Hygiene Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive loss, equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated March 31, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
Charlotte, NC

March 31, 2015

SWISHER HYGIENE INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
(In thousands)

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,233	\$ 21,465
Restricted cash	231	3,558
Accounts receivable, net	18,751	21,010
Inventory, net	15,426	14,032
Deferred income taxes	534	935
Assets held for sale	-	4,520
Other assets	2,525	5,782
Total current assets	<u>44,700</u>	<u>71,302</u>
Restricted cash	-	2,117
Property and equipment, net	37,037	43,842
Goodwill	-	5,821
Other intangibles, net	6,654	8,436
Customer relationships and contracts, net	22,792	28,575
Other noncurrent assets	2,015	1,624
Total assets	<u>\$ 113,198</u>	<u>\$ 161,717</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 13,627	\$ 8,794
Accrued payroll and benefits	3,467	3,819
Accrued expense	7,122	8,132
Long-term debt and obligations due within one year	1,884	5,251
Liabilities of discontinued operations	-	2,131
Total current liabilities	<u>26,100</u>	<u>28,127</u>
Long-term debt and obligations	1,185	2,003
Deferred income taxes	558	1,053
Other long-term liabilities	4,065	3,348
Total noncurrent liabilities	<u>5,808</u>	<u>6,404</u>
Commitments and contingencies (Notes 2, 3, 6, 7, 10, 13, 15)		
Equity ⁽¹⁾		
Preferred stock, par value \$0.001, authorized 10,000,000 shares; no shares issued and outstanding at December 31, 2014 and 2013	-	-
Common stock, par value \$0.001, authorized 600,000,000 shares; 17,612,278 shares and 17,576,741 shares issued and outstanding at December 31, 2014 and 2013	18	18
Additional paid-in capital	389,942	388,252
Accumulated deficit	(307,363)	(260,555)
Accumulated other comprehensive loss	(1,307)	(529)
Total equity	<u>81,290</u>	<u>127,186</u>
Total liabilities and equity	<u>\$ 113,198</u>	<u>\$ 161,717</u>

⁽¹⁾ All outstanding share amounts and computations using such amounts have been retroactively adjusted to reflect the June 3, 2014 one-for-ten reverse stock split.

See Notes to Consolidated Financial Statements

SWISHER HYGIENE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the Three Years Ended December 31, 2014
(In thousands except share and per share data)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue			
Products	\$ 173,505	\$ 189,480	\$ 202,968
Services	18,877	22,895	26,186
Franchise and other	1,375	1,313	1,367
Total revenue	<u>193,757</u>	<u>213,688</u>	<u>230,521</u>
Costs and expenses			
Cost of sales (exclusive of route expenses and related depreciation and amortization)	89,101	95,585	101,914
Route expenses	50,595	54,227	54,988
Selling, general, and administrative expenses	69,269	94,620	110,975
Acquisition and merger expenses	-	-	582
Depreciation and amortization	21,216	22,113	20,991
Impairment loss on assets held for sale	2,989	6,422	-
Impairment loss on goodwill	5,821	93,194	-
Total costs and expenses	<u>238,991</u>	<u>366,160</u>	<u>289,450</u>
Loss from continuing operations	<u>(45,234)</u>	<u>(152,472)</u>	<u>(58,929)</u>
Other expense, net	(1,663)	(654)	(3,093)
Net loss from continuing operations before income taxes	<u>(46,897)</u>	<u>(153,126)</u>	<u>(62,022)</u>
Income tax benefit (expense)	89	2,594	(18,753)
Net loss from continuing operations	<u>(46,808)</u>	<u>(150,532)</u>	<u>(80,775)</u>
Discontinued operations, net of tax (Note 2)			
Net loss from operations through disposal	-	(2,516)	(6,245)
Gain on disposal	-	-	13,844
(Loss) income from discontinued operations, net of tax	<u>-</u>	<u>(2,516)</u>	<u>7,599</u>
Net loss	<u>(46,808)</u>	<u>(153,048)</u>	<u>(73,176)</u>
Comprehensive loss			
Employee benefit plan adjustment, net of tax	(747)	503	(161)
Foreign currency translation adjustment	(31)	(33)	(3)
Comprehensive loss	<u>\$ (47,586)</u>	<u>\$ (152,578)</u>	<u>\$ (73,340)</u>
Loss per share ⁽¹⁾			
Basic and diluted (continuing operations)	<u>\$ (2.64)</u>	<u>\$ (8.55)</u>	<u>\$ (4.62)</u>
Basic and diluted (discontinued operations)	<u>-</u>	<u>\$ (0.14)</u>	<u>\$ 0.43</u>
Weighted-average common shares used in the computation of loss per share ⁽¹⁾			
Basic and diluted	<u>17,723,866</u>	<u>17,599,535</u>	<u>17,500,956</u>

⁽¹⁾ All outstanding share amounts and computations using such amounts have been retroactively adjusted to reflect the June 3, 2014 one-for-ten reverse stock split.

See Notes to Consolidated Financial Statements

SWISHER HYGIENE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31, 2014
(In thousands except share data)

STOCKHOLDERS' EQUITY

	Shares	Common Stock ⁽¹⁾ Amount	Additional Paid-in Capital ⁽¹⁾	Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Swisher Hygiene Inc. Stockholders' Equity	Non - Controlling Interest	Total Equity
Balance at December 31, 2011	17,480,419	\$ 17	\$ 378,982	\$ (34,331)	\$ (835)	\$ 343,833	\$ 22	\$ 343,855
Issuance of common stock on contingent earn-out	9,091	-	170	-	-	170	-	170
Conversion of promissory notes payable	1,004	-	37	-	-	37	-	37
Stock based compensation (including discontinued operations of \$2,863)	-	-	6,384	-	-	6,384	-	6,384
Issuance of common stock under stock based payment plans	23,637	-	-	-	-	-	-	-
Shares issued for non-controlling interest	1,000	-	37	-	-	37	-	37
Employee benefit plan adjustment, net of tax	-	-	-	-	(161)	(161)	-	(161)
Foreign currency translation adjustment	-	-	-	-	(3)	(3)	-	(3)
Net loss	-	-	-	(73,176)	-	(73,176)	-	(73,176)
Balance at December 31, 2012	17,515,151	17	385,610	(107,507)	(999)	277,121	22	277,143
Stock based compensation	-	-	2,916	-	-	2,916	-	2,916
Issuance of common stock under stock based payment plans	88,996	1	-	-	-	1	-	1
Shares withheld related to income taxes on RSUs	(27,406)	-	(274)	-	-	(274)	-	(274)
Liquidation of minority interest	-	-	-	-	-	-	(22)	(22)
Employee benefit plan adjustment, net of tax	-	-	-	-	503	503	-	503
Foreign currency translation adjustment	-	-	-	-	(33)	(33)	-	(33)
Net loss	-	-	-	(153,048)	-	(153,048)	-	(153,048)
Balance at December 31, 2013	17,576,741	18	388,252	(260,555)	(529)	127,186	-	127,186
Stock based compensation	-	-	1,740	-	-	1,740	-	1,740
Shares withheld related to income taxes on RSUs	(10,857)	-	(47)	-	-	(47)	-	(47)
Shares issued in connection with RSU delivery	46,394	-	(3)	-	-	(3)	-	(3)
Employee benefit plan adjustment, net of tax	-	-	-	-	(747)	(747)	-	(747)
Foreign currency translation adjustment	-	-	-	-	(31)	(31)	-	(31)
Net loss	-	-	-	(46,808)	-	(46,808)	-	(46,808)
Balance at December 31, 2014	17,612,278	18	389,942	(307,363)	(1,307)	81,290	-	81,290

⁽¹⁾ All outstanding share amounts and computations using such amounts have been retroactively adjusted to reflect the June 3, 2014 one-for-ten reverse stock split.

See Notes to Consolidated Financial Statements

SWISHER HYGIENE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE YEARS ENDED DECEMBER 31, 2014
(In thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating activities			
Net loss	\$ (46,808)	\$ (153,048)	\$ (73,176)
Adjustments to reconcile net loss to cash used in operating activities:			
Net loss (income) from discontinued operations, net of tax	-	2,516	(7,599)
Depreciation and amortization	21,216	22,113	20,991
Provision for doubtful accounts	196	936	2,396
Stock based compensation	1,740	2,916	3,521
Realized and unrealized gain on fair value of convertible notes	-	-	(241)
Deferred income taxes	(94)	(2,553)	18,370
Impairment loss on assets held for sale	2,989	6,422	-
Impairment loss on goodwill	5,821	93,194	-
Loss on disposal of property and equipment	195	33	-
Loss (gain) on sale of assets held for sale	754	(223)	-
Changes in operating assets and liabilities:			
Accounts receivable	2,325	(279)	3,739
Inventory	(247)	1,295	448
Accounts payable, accrued expense and other current liabilities	3,403	(3,084)	(6,598)
Other assets and non-current assets	2,187	(111)	(1,095)
Net cash used in operating activities of continuing operations	(6,322)	(29,873)	(39,244)
Net cash used in operating activities of discontinued operations	(2,131)	(4,647)	(3,519)
Cash used in operating activities	<u>(8,453)</u>	<u>(34,520)</u>	<u>(42,763)</u>
Investing activities			
Cash received for sale of discontinued operations	-	12,571	111,841
Purchases of property and equipment	(8,645)	(16,794)	(18,820)
Cash received on sale of property and equipment	92	329	3,061
Cash received on sale of assets held for sale	1,565	6,346	-
Acquisitions, net of cash acquired	-	(151)	(4,310)
Restricted cash	5,444	(285)	(5,390)
Net cash (used in) provided by investing activities of continuing operations	(1,544)	2,016	86,382
Net cash used in investing activities of discontinued operations	-	-	(2,861)
Cash (used in) provided by investing activities	<u>(1,544)</u>	<u>2,016</u>	<u>83,521</u>
Financing activities			
Payments on lines of credit	-	-	(25,000)
Proceeds from notes payable	1,097	-	-
Proceeds from equipment financing	-	-	209
Principal payments on debt and capital leases	(5,282)	(7,177)	(22,626)
Payment of shareholder advances	-	-	(2,000)
Proceeds from exercise of stock options	-	1	-
Taxes paid related to income tax withheld on settlement of equity awards	(50)	(274)	-
Net cash used in financing activities of continuing operations	(4,235)	(7,450)	(49,417)
Net cash provided by financing activities of discontinued operations	-	-	(430)
Cash used in financing activities	<u>(4,235)</u>	<u>(7,450)</u>	<u>(49,847)</u>
Net decrease in cash and cash equivalents	<u>(14,232)</u>	<u>(39,954)</u>	<u>(9,089)</u>
Cash and cash equivalents at the beginning of the period	<u>21,465</u>	<u>61,419</u>	<u>70,508</u>
Cash and cash equivalents at the end of the period	<u>\$ 7,233</u>	<u>\$ 21,465</u>	<u>\$ 61,419</u>
Supplemental Cash Flow Information			
Cash paid for interest (including discontinued operations)	\$ 150	\$ 370	\$ 4,253
Cash received for interest (including discontinued operations)	\$ 9	\$ 41	\$ 75
Cash paid for income taxes	\$ 51	\$ 316	\$ 88
Notes payable issued or assumed on acquisitions (continuing operations)	\$ -	\$ -	\$ 1,121
Note payable related to insurance financing	\$ 1,097	\$ 2,634	\$ 2,732
Stock issued to purchase property and to settle liabilities (continuing operations)	\$ -	\$ -	\$ 37
Property received as payment on accounts receivable	\$ -	\$ -	\$ 650

See Notes to Consolidated Financial Statements

SWISHER HYGIENE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Operations

Swisher Hygiene Inc. and its wholly-owned subsidiaries (the “Company” or “we” or “our”) provide essential hygiene and sanitizing solutions that include cleaning and sanitizing chemicals, restroom hygiene programs and a full range of related products and services. We sell consumable products such as detergents, cleaning chemicals, soap, paper, water filters and supplies, together with the rental and servicing of dish machines and other equipment for the dispensing of those products as well as additional services such as the cleaning of facilities. We serve customers in a wide range of end-markets, with a particular emphasis on the foodservice, hospitality, retail, and healthcare industries.

During 2011 and most of 2012, we operated in two segments: (i) Hygiene and (ii) Waste. As a result of the sale of the Waste segment in November 2012, we currently operate in one business segment, Hygiene, and the Company has applied discontinued operations accounting treatment and disclosures for this transaction. See Note 2 “Discontinued Operations and Assets Held for Sale” for further information.

Our principal executive offices are located at 4725 Piedmont Row Drive, Suite 400, Charlotte, North Carolina, 28210. As of December 31, 2014, we have company owned operations and one remaining franchise operation located throughout North America and we have entered into nine Master License Agreements covering the United Kingdom, Portugal, the Netherlands, Singapore, the Philippines, Taiwan, Korea, Hong Kong/Macau/China, and Mexico. The financial information about our geographical areas is included in Note 18, “Geographic Information” to the Notes to the Consolidated Financial Statements.

Merger

On August 17, 2010, Swisher International, Inc. (“Swisher International”) entered into a merger agreement under which all of the outstanding common shares of Swisher International were exchanged for common shares of CoolBrands International Inc. (“CoolBrands”), and Swisher International became a wholly-owned subsidiary of CoolBrands (the “Merger”). Immediately before the Merger, CoolBrands completed its redomestication to Delaware from Ontario, Canada and became Swisher Hygiene Inc. The Merger was completed on November 2, 2010. After the Merger, the shareholders of CoolBrands held shares of Swisher Hygiene Inc. common stock.

Going Concern

Our consolidated financial statements were prepared on a going concern basis in accordance with U.S. GAAP. The going concern basis of presentation assumes that we will continue in operation for the next twelve months and will be able to realize our assets and discharge our liabilities and commitments in the normal course of business and does not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from our inability to continue as a going concern. The Company has suffered recurring losses from operations and has not generated positive cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. In order for us to continue operations beyond the next twelve months and be able to discharge our liabilities and commitments in the normal course of business, we must do some or all of the following: (i) improve operating results through improved customer retention, profitable organic revenue growth, and continued improvements in cost efficiencies; (ii) sell additional non-core or non-essential assets; (iii) raise additional equity; or (iv) obtain additional financing through debt. There can be no assurance that we will be able to improve operating results or obtain additional funds by selling additional non-core or non-essential assets, raising additional equity or obtaining additional financing when needed or that such funds, if available, will be obtainable on terms satisfactory to us.

If we are not able to improve operating results or obtain additional funds by selling additional non-core or non-essential assets, raising additional equity or obtaining additional financing, material adverse events may occur including, but not limited to: 1) a reduction in the nature and scope of our operations, 2) our inability to fully implement our current business plan and 3) defaults under the Credit Facility. There can be no assurances that we will be able to successfully improve our liquidity position. Our consolidated financial statements do not reflect any adjustments that might result from the adverse outcome relating to this uncertainty.

Basis of Presentation and Principles of Consolidation

Intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications, including those described further in Note 4, “Prior Period Reclassification,” have been made to prior year amounts for consistency with the current period presentation. Financial information, other than share and per share data, is presented in thousands of dollars.

On June 3, 2014, a one-for-ten reverse split of the Company's issued and outstanding common stock, \$0.001 par value per share, became effective (“Reverse Stock Split”). Trading of the common stock on a post-Reverse Stock Split adjusted basis began at the open of business on the morning of June 3, 2014. All historic share and per share information, including loss per share, in this Form 10-K have been retroactively adjusted to reflect the Reverse Stock Split.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements. Actual results could differ from those estimates and such differences could affect the results of operations reported in future periods.

Segments

We operate in one business segment, the manufacturing, distribution and delivery of hygiene and sanitizing services, products and solutions. We define business segments as components of an organization for which discrete financial information is available and operating results are evaluated on a regular basis by the chief operating decision maker (“CODM”) in order to assess performance and allocate resources. Our CODM is the Company’s President and Chief Executive Officer. Characteristics of our organization which were relied upon in making this determination include the similar nature of the products and services we sell, the functional alignment of our organizational structure, and the reports that are regularly reviewed by the CODM for the purpose of assessing performance and allocating resources. Previously we operated in two segments. See Note 2, “Discontinued Operations and Assets Held for Sale.”

Cash Equivalents

The Company considers all cash accounts and all highly liquid short term investments purchased with an original maturity of three months or less at date of purchase to be cash equivalents. As of December 31, 2014 and 2013, the Company did not have any investments with maturities greater than three months.

Restricted Cash

Restricted cash at December 31, 2014 consists of amounts held in a collateral account to secure purchase card balances and electronic cash transfers.

Accounts Receivable

Accounts receivable principally consist of amounts due from customers for product sales and services. Accounts receivable are reported net of an allowance for doubtful accounts (“allowance”) and interest is generally not charged to customers on delinquent balances. The allowance is management’s best estimate of uncollectible amounts and is based on a number of factors, including overall credit quality of customers, the age of outstanding customer balances, historical write-off experience and specific customer account analysis that projects the ultimate collectability of the outstanding balances. When accounts receivable amounts are considered uncollectible, the amounts are written-off against the allowance for doubtful accounts. The allowance was \$1.0 million and \$2.0 million at December 31, 2014 and 2013, respectively.

Inventory

Inventory consists of purchased items, materials, direct labor, and other manufacturing related overhead and is stated at the lower of cost or market determined using the first in-first out costing method. The Company routinely reviews inventory for excess and slow moving items as well as for damaged or otherwise obsolete items and for items selling at negative margins. When such items are identified, a reserve is recorded to adjust their carrying value to their estimated net realizable value. The reserve was \$0.8 million and \$0.9 million at December 31, 2014 and 2013, respectively.

Assets Held for Sale

We record net assets held for sale in accordance with *Accounting Standards Codification (“ASC”) 360 “Property, Plant, and Equipment”* at the lower of carrying value or fair value. Fair value is based on the estimated sales price, less selling costs, of the assets. Estimates of the net sales proceeds are based on a number of factors including standard industry multiples of revenues or operating metrics, and the status of ongoing sales negotiations and asset purchase agreements where available. Our estimates of fair value are regularly reviewed and subject to changes based on market conditions, changes in the customer base of the operations or routes and our continuing evaluation as to the facility’s acceptable sale price. No depreciation or amortization expense is recorded related to the assets held for sale. As described further below and in Note 9, “Fair Value Measurements,” assets held for sale are measured using Level 3 inputs.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of individual assets or classes of assets as follows:

	Years
Items in service	2 – 7
Equipment, laundry facility equipment and furniture	3 - 20
Vehicles	5
Computer equipment	3
Computer software	3 - 7
Building and leasehold improvements	1 - 40

Items in service consist of various systems that dispense the Company's cleaning and sanitizing products, linens, dish machines and dust control products. Included in the capitalized cost of items in service are costs incurred to install certain equipment for customer locations under long-term contracts. These costs include labor, parts and supplies. Costs of significant additions, renewals and betterments, are capitalized and depreciated. Maintenance and repairs are charged to expense when incurred.

The Company capitalizes certain costs incurred during the application development stage associated with the development of new software products for internal use. Research and development costs in the preliminary project stage are expensed. Internal and external training costs and maintenance costs in the post-implementation operation stage are also expensed. Capitalized software costs are amortized over the estimated useful lives of the software commencing upon operational use.

Purchase Accounting for Business Combinations

The Company accounts for acquisitions by allocating the fair value of the consideration transferred to the fair value of the assets acquired and liabilities assumed on the date of the acquisition and any remaining difference is recorded as goodwill. Adjustments may be made to the preliminary purchase price allocation when facts and circumstances that existed on the date of the acquisition surface during the allocation period subsequent to the preliminary purchase price allocation, not to exceed one year from the date of acquisition. Contingent consideration is recorded at fair value based on the facts and circumstances on the date of the acquisition and any subsequent changes in the fair value are recorded through earnings each reporting period. Transactions that occur in conjunction with or subsequent to the closing date of the acquisition are evaluated and accounted for based on the facts and substance of the transactions.

Goodwill

Goodwill is not amortized but rather tested for impairment at least annually. The Company tests goodwill for impairment annually during the fourth quarter of each fiscal year. Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (also known as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component. The Company has concluded that it has one reporting unit.

When testing goodwill for impairment, the Company may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the Company's fair value is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this qualitative assessment and perform step 1 of the two-step goodwill impairment test. This step requires the determination of the fair value of the reporting unit. If we perform step 1 and the carrying amount of the reporting unit exceeds its fair value, we would perform step 2 to measure such impairment.

Determining fair value includes the use of significant estimates and assumptions. Management utilizes an income approach, specifically the discounted cash flow technique as a means for estimating fair value. This discounted cash flow analysis requires various assumptions including those about future cash flows, customer growth rates and discount rates. Expected cash flows are based on historical customer growth, including attrition, future strategic initiatives and continued long-term growth of the business. The discount rates used for the analysis reflect a weighted average cost of capital based on industry and capital structure adjusted for equity risk and size risk premiums. These estimates can be affected by factors such as customer growth, pricing, and economic conditions that can be difficult to predict. During the second quarter of 2014 and the fourth quarter of 2013, in conjunction with its impairment test, the Company recorded a goodwill impairment charge of \$5.8 million and \$93.2 million, respectively, as further discussed in Note 5, "Goodwill and Other Intangible Assets".

Other Intangible Assets

Identifiable intangible assets include customer relationships, non-compete agreements, trade names and trademarks, and formulas. The fair value of these intangible assets at the time of acquisition is estimated based upon various valuation techniques including replacement cost and discounted future cash flow projections. Customer relationships are amortized on a straight-line basis over the expected average life of the acquired accounts, which is typically five to ten years based upon a number of factors, including historical longevity of customers and contracts acquired and historical retention rates. The non-compete agreements are amortized on a straight-line basis over the term of the agreements, typically not exceeding five years. Formulas are amortized on a straight-line basis over their estimated useful life of twenty years. The Company reviews the recoverability of these assets if events or circumstances indicate that the assets may be impaired and periodically reevaluates the estimated remaining lives of these assets.

Trade names and trademarks are considered to be indefinite lived intangible assets unless specific evidence exists that a shorter life is more appropriate. Indefinite lived intangible assets are tested, at a minimum, on an annual basis, using a discounted cash flow approach, or sooner whenever events or changes in circumstances indicate that an asset may be impaired.

Long-Lived Assets

Fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future net cash flows expected to be generated by the asset. If such assets or asset groups are considered to be impaired the impairment to be recognized is measured by the amount by which the carrying amount of the assets or asset groups exceeds the related fair values. The Company also performs a periodic assessment of the useful lives assigned to the long-lived assets, as previously discussed.

Foreign Currency Translation

All assets and liabilities of our Canadian operations are translated into U.S. dollars using the exchange rates in effect at the balance sheet date and statement of operations items are translated using the average exchange rates throughout the period. The translation adjustment is presented as a component of accumulated other comprehensive (loss) income. The loss was primarily due to unfavorable conversion rates.

Financial Instruments

The Company's financial instruments, which may expose the Company to concentrations of credit risk, include cash and cash equivalents and accounts receivables. The Company maintains cash deposits with major banks, which from time to time may exceed insured limits. The possibility of loss related to the financial condition of major banks is considered minimal. The Company's accounts receivable balance is composed of numerous customers of varying sizes in diverse industries and geographies. This fact, as well as the practice of establishing reasonable credit limits mitigates credit risk. Based on historical trends and experiences, the allowance for doubtful accounts is adequate to cover potential credit risk losses.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short maturity of these instruments. The fair value of the Company's debt is estimated based on the current borrowing rates available to the Company for bank loans with similar terms and maturities and approximates the carrying value of these liabilities. Certain convertible promissory notes are recorded at fair value during 2014 and 2013 as further described in Note 8, "Fair Value Measurements."

Revenue Recognition

Revenue from product sales and service is recognized when the product is delivered to the customer or when services are performed, including product and service sales made under multiple deliverable agreements, which outline the pricing of products and the preferred frequency of delivery. Deliverables under these pricing arrangements are considered to be separate units of accounting, as defined by ASC 605-25, *Revenue Recognition – Multiple-Element Arrangement*, and due to the nature of the Company's business, the timing of the delivery of products and performance of service is concurrent and ongoing and there are no contingent deliverables. Franchise and other revenue include product sales, royalties and other fees charged to franchisees in accordance with the terms of their franchise agreements. Royalties and fees are recognized when earned and product sales are recognized as the product is delivered.

The Company's sales policies provide for limited rights of return and, during the fiscal years 2014, 2013, and 2012, product returns were insignificant. The Company records estimated reductions to revenue for sales returns and for customer programs and incentive offerings, including pricing arrangements, rebates, promotions and other volume-based incentives at the time the sale is recorded.

Stock Based Compensation

The Company measures and recognizes all stock based compensation at fair value at the date of grant and recognizes compensation expense over the service period for awards expected to vest. Determining the fair value of stock based awards at the grant dates requires judgment, including estimating the share volatility, the expected term the award will be outstanding, and the amount of the awards that are expected to be forfeited. The Company utilizes the Black-Scholes option pricing model to determine the fair value for stock options on the date of grant.

Freight Costs

Shipping and handling costs for freight expense on goods shipped are included in cost of sales. Shipping and handling costs for freight expense on goods received are capitalized to inventory where they are relieved to cost of sales when the product is sold.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets where it is more likely than not that deferred tax assets will not be realized.

The Company's policy is to evaluate uncertain tax positions under *ASC 740-10, Income Taxes*. As of December 31, 2014 and 2013, and for the three years ended December 31, 2014, the Company has not identified any uncertain tax positions requiring recognition in the accompanying consolidated financial statements. The Company includes interest and penalties accrued in the consolidated financial statements as a component of interest expense. No significant amounts were required to be recorded for the three year period ended December 31, 2014.

Loss per Common Share

Basic net loss from continuing operations and basic net loss from discontinued operations attributable to common stockholders per share is computed by dividing the applicable net loss by the weighted average number of common shares outstanding during the period. Vested restricted stock units, of 0.1 million which have been deferred, are included in this weighted average number of common shares calculation. Diluted net loss from continuing operations per share was the same as basic net loss from continuing operations attributable to common stockholders per share for all periods presented, since the effects of any potentially dilutive securities are excluded as they are antidilutive due to the Company's net losses. Diluted net earnings per share from discontinued operations was calculated in the same manner as diluted net loss from continuing operations per share in accordance with *ASC 260, Earnings per Share*.

Comprehensive Loss

Comprehensive loss includes net loss, foreign currency translation adjustments and an employee benefit plan adjustment consisting of changes to unrecognized pension actuarial gains and losses, net of tax.

Fair Value Measurements

The Company determines the fair value of certain assets and liabilities based on assumptions that market participants would use in pricing the assets or liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or the “exit price.” The Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and gives precedence to observable inputs in determining fair value. An instrument’s level within the hierarchy is based on the lowest level of any significant input to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The following is a discussion of the levels established for each input.

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Instruments classified as Level 1 consist of financial instruments such as listed equities and fixed income securities.

Level 2: Inputs other than quoted prices, included in Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. These are inputs for which there is no market data available or observable inputs that are adjusted using Level 3 assumptions.

Pension Plan

An acquired subsidiary of CoolBrands maintained a defined benefit pension plan (“the Plan”) covering approximately 90 employees. Subsequent to the acquisition by CoolBrands in 2000, all future participation and all benefits under the Plan were frozen. The Plan provides retirement benefits based primarily on employee compensation and years of service up to the date of acquisition. The Company recognizes in its consolidated balance sheet the overfunded or underfunded status of the Plan measured as the difference between the fair value of Plan assets and the benefit obligation. The Company recognizes as a separate component of comprehensive loss the actuarial gains and losses that arise during the period that are not recognized as components of net periodic benefit cost. The Company measures the Plan assets and the Plan obligations as of December 31 and discloses additional information in the Notes to Consolidated Financial Statements about certain effects on net periodic benefit cost in the upcoming fiscal year that arise from delayed recognition of the actuarial gains and losses.

The calculation of net periodic benefit cost and the corresponding net liability requires the use of critical assumptions, including the expected long-term rate of return on Plan assets and the assumed discount rate. Changes in these assumptions can result in different expense and liability amounts. Net periodic benefit cost increases as the expected rate of return on Plan assets decreases. Future changes in Plan asset returns, assumed discount rates and other factors related to the participants in the Company’s Plan will impact the Company’s future net periodic benefit cost and liabilities. The Company cannot predict with certainty what these factors will be in the future however they are not expected to have a material effect on the Company’s operating results, financial position or cash flows.

Newly Issued Accounting Pronouncements

On April 10, 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this accounting standard raise the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This accounting standard update is effective for annual periods beginning on or after December 15, 2014, and related interim periods with early adoption allowed. The Company is currently evaluating the impact of this standard and plans to adopt this standard on the stated effective date in fiscal year 2015.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This accounting standard creates common revenue recognition guidance for U.S. GAAP and IFRS. The guidance also requires improved disclosures to help users of the financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. This accounting standard update is effective for annual reporting periods beginning after December 15, 2016, and related interim periods. Early adoption is not permitted. The Company is currently evaluating the impact of this standard.

In August 2014, the FASB issued ASU Update No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40) (Topic 718), Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. ASU Update No. 2014-15 provides guidance related to management’s responsibility to evaluate whether there is substantial doubt about the entity’s ability to continue as a going concern and to provide related footnote disclosures. The new requirements are effective for the annual periods ending after December 15, 2016, and for interim periods and annual periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of this standard and has elected to not adopt the standard early.

NOTE 2 — DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Discontinued Operations – Waste Segment

On November 15, 2012, the Company completed a stock sale of Choice, and other acquired businesses, including Lawson Sanitation LLC, Central Carting Disposal, Inc., FSR Transporting and Crane Services, Inc., that comprised the Waste segment to Waste Services of Florida, Inc. for \$123.3 million resulting in a gain of \$13.8 million, net of tax. The Company applied discontinued operations accounting treatment and disclosures related to this transaction. The stock purchase agreement stipulated customary purchase price adjustments related to closing balance sheet working capital targets and in addition, that \$12.5 million of the purchase price consideration would be reserved and held back in escrow by the purchaser ("the holdback amount") and paid subject to financial adjustments regarding defined long-term assets and 2012 third quarter EBITDA targets. Management recorded the holdback amount in the calculation of the gain on sale of the Waste segment and the amount is classified on the balance sheet as "Accounts receivable due from sale of discontinued operations" at December 31, 2012. Proceeds from the holdback plus \$0.1 million in working capital adjustments were received during the first half of 2013.

The following table presents summarized operating results for these discontinued operations for the fiscal years ended 2014, 2013 and 2012.

	2014	2013	2012
Revenue	\$ -	\$ -	\$ 60,874
Net (loss) income after taxes and 2012 gain on disposal of \$13.8 million	-	(2,516)	7,599

Any corporate management overhead charged to the Waste segment in prior year filings has been included in continuing operations in the periods subsequent to the discontinuance as the overhead amounts are not expected to change as a result of the sale of the Waste segment. During fiscal year 2013, the Company incurred \$2.5 million in expenses related to the discontinued operation as follows: \$0.5 million increase to retained worker's compensation liabilities and \$2.0 million in legal fees and a settlement payment related to a contractual dispute involving one of the businesses sold that the Company accepted responsibility to resolve as a term of the sales agreement.

Net cash of \$2.1 million used in connection with discontinued operations for the twelve months ended December 31, 2014 principally represents payment for legal fees and the settlement of a contractual dispute that the Company accepted responsibility to resolve as a part of the sale of the Waste segment. For the twelve months ended December 31, 2013, net cash of \$4.6 million used in connection with discontinued operations principally represents the payment of certain liabilities for severance and professional fees, previously accrued as a part of the sale, as well as cash payments related to retained worker's compensation liabilities and litigation accruals. There were no cash inflows related to discontinued operations in 2014 or 2013.

Assets Held For Sale

During 2013, the Company commenced an active program to sell certain non-core assets and routes related to its linen and dust operations. Additionally, in 2014 the Company ceased operations at a linen processing plant and in 2013 a chemical manufacturing plant was closed in connection with the Company's plant consolidation efforts. In accordance with ASC 360, *Property, Plant and Equipment*, these assets were classified as assets held for sale in the Consolidated Balance Sheet and the asset balances were adjusted to the lower of historical carrying amounts or fair values.

During 2014, the Company updated its estimates of the fair value of certain linen routes and operations to reflect various events that occurred during the year. The cumulative impairment loss for the twelve months ended December 31, 2014 was \$3.0 million, of which \$1.9 million was attributable to a reduction in the estimate of net sales proceeds for a linen processing operation. The factors driving the \$1.9 million reduction were the cancellation notifications received during April and May 2014 from three major customers resulting in a significant loss of forecasted revenue; and the operation's 2014 year-to-date loss which was in excess of the Company's estimates. The asset fair value of this linen processing operation was written down to zero in the second quarter of 2014 and was closed during the fourth quarter of 2014.

The Company recorded impairment charges for the twelve months ended December 31, 2013 of \$6.4 million. Included in this charge is \$3.1 million that was recorded during the fourth quarter of 2013 as follows: \$2.0 million related to the Board of Director's approval, on November 8, 2013, of additional assets to be disposed of and the resultant adjustment of these assets from net carrying value to fair value; \$1.1 million impairment adjustments to existing assets held for sale to reflect reductions in the estimated fair value as a result of events that occurred during the fourth quarter which indicated that the estimated net selling prices will be less than anticipated at the end of the third quarter.

The Company completed several sales transactions during the twelve months ended December 31, 2014, which resulted in the net receipt of \$1.6 million in cash and the remainder in receivables. A loss on these sales of \$0.9 million was incurred and included a write-off of \$0.6 million of the receivable balances. The receivable balances were primarily for contingent sales proceeds that were based on post-closing revenues of previously sold routes which were lower than estimated. The total loss of \$0.8 million for the twelve months ended December 31, 2014, is included in “Other expense, net” in the consolidated statement of operations and comprehensive loss.

The Company completed several sales transactions during the last half of 2013 totaling \$6.3 million in net sales proceeds including \$0.6 million in receivable balances that were contingent primarily upon 2014 revenues generated by certain of the sold assets during defined post-close periods. The resulting \$0.2 million gain is included in “Other expense, net” in the consolidated statement of operations and comprehensive loss.

There were no assets held for sale as of December 31, 2014. The major classes of assets held for sale as of December 31, 2013 are as follows:

	December 31, 2013
Property and equipment, net	\$ 2,410
Goodwill	1,272
Customer relationships, net	833
Other, net	5
Total	\$ 4,520

None of the disposal groups that could be classified as discontinued operations were material, individually or in the aggregate, to the Company’s consolidated financial statements and therefore these results were not separately classified in discontinued operations. The remaining portfolio of assets held for sale did not meet the criteria for discontinued operations as they did not represent operations and cash flows that are clearly distinguished, operationally and for financial reporting purposes consistent with the Company’s strategy of integrating these acquired assets into its existing business operations. Additionally, the Company anticipates maintaining continuing revenues with respect to a the majority of the sold routes and/or customers through the sale of chemical, paper and its other core hygiene and sanitizing products and services.

NOTE 3 — ACQUISITIONS

2013 Acquisitions

During fiscal year 2013, the Company acquired a franchise located in Ottawa, Canada for \$0.2 million primarily in cash plus receivables, resulting in a \$0.1 million addition to goodwill. This acquisition is immaterial to the Company’s consolidated financial statements and therefore supplemental pro-forma information is not presented.

2012 Acquisitions

The following table summarizes the Company's 2012 acquisitions and the estimated aggregate fair values of the assets acquired and liabilities assumed at the date of acquisition:

	<u>2012</u>
Number of businesses acquired	4
Net assets acquired:	
Accounts receivable and other assets	\$ 263
Inventory	86
Property and equipment	2,085
Other intangibles	
Customer relationships	1,276
Non-compete agreements	120
Trademarks	130
Accounts payable and accrued expenses	<u>(42)</u>
Total net assets acquired	3,918
Goodwill	<u>1,550</u>
Total purchase price	5,468
Less: debt issued or assumed	(1,121)
Less: issuance of shares	<u>(37)</u>
Cash Paid	<u>\$ 4,310</u>

During 2012, the Company acquired four independent businesses and purchased the remaining non-controlling interest in one of its subsidiaries. The results of operations of these acquisitions have been included in the Company's consolidated financial statements and include \$3.1 million in revenue and the related loss was insignificant to the Company's overall net loss from continuing operations. None of these acquisitions were significant individually or in the aggregate to the Company's consolidated financial results and therefore, supplemental pro forma financial information is not presented.

NOTE 4 — PRIOR PERIOD RECLASSIFICATION

In the first quarter of 2014, the Company began implementing a realignment of its field service and sales organization and as a result the primary function of certain job titles has shifted from primarily a sales, to a service focus. The additional service activities involve more frequent field visits to perform preventative maintenance, repairs, evaluation of product and service solutions and required inventory levels. This realignment of the field service and sales organization was implemented in stages during 2014. Payroll expense related to these job titles was historically classified within “Selling, general and administrative expenses” in the Consolidated Statement of Operations and Comprehensive Loss, based on the primary job focuses of sales and administration. Based on the changes in the job functions, the related payroll expense is classified within “Route expense”, which the Company defines as the employee costs incurred to provide service and deliver products to customers. To facilitate comparability between the periods presented in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the twelve months ended December 31, 2013 certain selling, general and administrative expenses have been reclassified to route expense to conform to the current period’s presentation which resulted in an \$11.9 million increase in route expense and a \$11.9 million decrease in selling, general and administrative expense. The reclassification for the twelve months ended December 31, 2012 resulted in a \$12.5 million increase in route expense and a \$12.5 million decrease in selling, general and administrative expense. There was no impact to loss from continuing operations, net loss or loss per share as a result of the 2013 and 2012 reclassifications.

NOTE 5 — GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets have been recognized in connection with the Company’s acquisitions and substantially all of the balance is expected to be fully deductible for income tax purposes over 15 years. Changes in the carrying amount of goodwill during the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Gross balance- beginning	\$ 5,821	\$ 107,228
Additions related to acquisitions (Note 3)	-	150
Adjustment to the lower of carrying or fair market value for Assets Held for Sale (Note 2)	-	(4,703)
Reclassification of goodwill to Assets Held for Sale (Note 2)	-	(2,790)
Dispositions (Note 2)	-	-
Gross balance – ending	5,821	99,885
Accumulated impairment loss	(5,821)	(94,064)
Net balance – ending	\$ -	\$ 5,821

The Company’s accounting policy was to perform an annual goodwill impairment test in the fourth quarter or more frequently whenever events or circumstances indicated that goodwill or the carrying value of intangible assets may not be recoverable. On a quarterly basis, we monitor the key drivers of fair value to detect the existence of indicators or changes that would warrant an interim impairment test for our goodwill and intangible assets. Due to a shortfall in sales compared to expectations in the quarter ended June 30, 2014, the Company elected to bypass the qualitative analysis step and proceed directly to step 1 of the goodwill impairment test. Step 1 of the goodwill impairment test was performed with the assistance of an independent valuation specialist using the discounted cash flow method (“DCF”). Based on this analysis, it was determined that the Company’s net book value exceeded its fair value thereby necessitating the performance of step 2 of the goodwill impairment test. The decrease in estimated fair value was driven by lower actual revenue compared to 2014 projections. The growth rates for the second half of 2014 and the first half of 2015 were revised to reflect the lower revenue during the six months ended June 30, 2014. The effect of these revisions resulted in a loss of estimated fair value resulting in a write-off of the remaining goodwill balance with a non-cash impairment charge of \$5.8 million during 2014.

In connection with its 2013 fourth quarter evaluation of goodwill, the Company elected to bypass the qualitative analysis step and proceed directly to step 1 of the goodwill impairment test. This decision was based largely on the results of the 2013 third quarter interim impairment test that indicated the Company’s goodwill was at high risk of impairment given the narrow difference identified between fair value and book value. It was determined that the Company’s net book value exceeded its fair value thereby necessitating the performance of step 2 of the goodwill impairment test. In performing Step 2 of the impairment test, with the assistance of valuation specialists, we compared the implied fair value of the reporting unit’s goodwill to its carrying value. This test resulted in a non-cash impairment charge of \$93.2 million in 2013. The goodwill impairment can be attributed to the Company’s history of operating losses and continued deterioration of its stock price.

We believe the cash flow projections and valuation assumptions used were reasonable and consistent with market participants. The key variables that drive our cash flows are customer growth and attrition and operational efficiencies. The terminal value growth rate assumption as well as the WACC rate both represent additional key variables in the DCF model. The estimates and assumptions used are subject to uncertainty.

Other Intangible Assets

	Weighted-average Amortization Period (Years)	Carrying Amount	Accumulated Amortization	Net
At December 31, 2014				
Customer relationships	8.9	\$ 50,635	\$ (27,838)	\$ 22,792
Non-compete agreements	4	9,098	(8,032)	1,066
Formulas	20	4,544	(767)	3,777
Trademarks/ Trade names	(A)	2,151	(340)	1,811
Total		\$ 66,428	\$ (36,982)	\$ 29,446
At December 31, 2013				
Customer relationships	8.9	\$ 50,635	\$ (22,060)	\$ 28,575
Non-compete agreements	4	9,098	(6,380)	2,718
Formulas	20	4,544	(545)	3,999
Trademarks/ Trade names	(A)	2,059	(340)	1,719
Total		\$ 66,336	\$ (29,325)	\$ 37,011

(A) Consist of indefinite lived and finite lived intangible assets.

The fair value of the customer relationships acquired is based on future discounted cash flows expected to be generated from those customers. These customer relationships will be amortized on a straight-line basis over five to ten years, which is primarily based on historical customer attrition rates. The fair value of the non-compete agreements will be amortized on a straight-line basis over the length of the agreements, typically with terms of five years or less. The fair value of formulas is amortized on a straight-line basis over twenty years. As of December 31, 2012, all trademarks and trade names are considered indefinite lived intangibles.

During 2013, approximately \$2.5 million in customer relationships and non-compete assets were reclassified to assets held for sale as further discussed in Note 3, "Discontinued Operations and Assets Held for Sale." The Company recorded \$0.6 million in impairment losses related to customer relationships and non-compete agreements that was recognized and included in other expense, net.

Amortization expense was \$7.7 million, \$8.1 million, and \$8.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. At December 31, 2014, estimated future amortization of separately identifiable intangibles for each of the next five years and thereafter is: 2015 - \$6.3 million, 2016 - \$4.2 million, 2017 - \$3.5 million, 2018 - \$3.5 million, 2019 - \$3.5 million and thereafter - \$6.6 million.

NOTE 6 — INVENTORY

Inventory is comprised of the following components at December 31, 2014 and 2013:

	December 31,	
	2014	2013
Finished goods	\$ 12,285	\$ 11,587
Raw materials	2,781	2,042
Work in process	360	403
Total	\$ 15,426	\$ 14,032

NOTE 7 — PROPERTY AND EQUIPMENT

Property and equipment, net as of December 31, 2014 and 2013 consist of the following:

	December 31,	
	2014	2013
Items in service	\$ 48,928	\$ 47,851
Equipment, laundry facility equipment and furniture	10,276	9,456
Vehicles	2,380	2,723
Computer equipment	2,312	2,480
Computer software	7,378	7,236
Building and leasehold improvements	6,191	6,127
	77,465	75,873
Less accumulated depreciation and amortization	(40,428)	(32,031)
Property and equipment, net	\$ 37,037	\$ 43,842

Depreciation and amortization expense on property and equipment for the years ended December 2014, 2013, and 2012 was \$13.6 million, \$14.0 million, and \$12.3 million, respectively. The cost and accumulated depreciation of fully depreciated assets are removed from the accounts when assets are disposed.

As of December 31, 2014 and 2013, computer software includes costs of \$6.3 million and \$6.1 million, respectively, for upgrades to our enterprise reporting management system and the development of our technology platform for field service operations, accounting, billing and collections. The accumulated depreciation was \$5.0 million and \$4.1 million as of December 31, 2014 and 2013, respectively. The weighted average amortization period for capitalized software costs is 7 years. Depreciation and amortization expense for capitalized computer software costs was \$0.9 million for each of the years ended December 31, 2014, 2013, and 2012. At December 31, 2014, estimated amortization of computer software costs for each of the next five years is: 2015 - \$0.4 million, 2016 - \$0.3 million, 2017 - \$0.3 million, 2018 - \$0.2 million, and \$0.1 million thereafter.

As of December 31, 2014, property and equipment includes \$0.4 million in recorded capital leases with \$0.2 million in accumulated depreciation. The gross amount of property and equipment recorded under capital leases consists of \$0.2 million in computers and \$0.2 million in machinery and equipment. As of December 31, 2013, property and equipment includes \$0.9 million recorded in capital leases with \$0.4 million in accumulated depreciation. The gross amount of property and equipment recorded under capital leases consists of \$0.2 million in computers, \$0.1 million in machinery and equipment and \$0.6 million in dish machines.

NOTE 8 — LONG-TERM DEBT AND OBLIGATIONS

The major components of debt as of December 31, 2014 and 2013 consist of the following:

	December 31,	
	2014	2013
Notes payable	\$ 1,193	\$ 1,721
Convertible promissory notes, 4.0%: maturing at various dates through 2016	832	2,679
Capitalized lease obligations and other financing	1,044	2,854
Total debt and obligations	3,069	7,254
Long-term debt and obligations due within one year	(1,884)	(5,251)
Long-term debt and obligations	\$ 1,185	\$ 2,003

At December 31, 2014, principal debt payments due for each of the next five years and thereafter are: 2015 - \$1.9 million, 2016 - \$0.5 million, 2017 - \$0.3 million, 2018 - \$0.3 million, and thereafter – \$0.1 million.

Acquisition Related Notes Payable

In connection with certain acquisitions, the Company incurred or assumed notes payable as part of the purchase price. Two of the seller notes payable totaling \$1.2 million as of December 31, 2014 are secured by letters of credit and the remaining notes payable are secured by the Company. At December 31, 2014 and 2013, these obligations bore interest at rates ranging between 3.7% and 4.0%.

Capital lease obligations and Other Financing

The Company has entered into capitalized lease obligations with third party finance companies to finance the cost of certain dish machines. At December 31, 2014 and 2013, these obligations bore interest at rates ranging between 4.0% and 18.4%. The Company has also entered into notes payables with third party finance companies to pay various insurance premiums. At December 31, 2014 and 2013, these obligations bore interest at rates ranging between 2.3% and 2.8%.

Convertible promissory notes

During 2012 and 2011, the Company issued eighteen convertible promissory notes with an aggregate principal value of \$10.9 million as part of total consideration paid for acquisitions that were recorded at fair value on the date of issuance. The Company makes quarterly cash payments through each note's maturity date. The ability to settle these notes with shares exist at the Company's election into a maximum of 2,823,853 shares of common stock. The Company may settle these notes at any time prior to and including the maturity date any portion of the outstanding principal amount, plus accrued interest in a combination of cash and shares of common stock. To the extent that the Company's common stock is part of such settlement, the settlement price is the most recent closing price of the Company's common stock on the trading day prior to the date of settlement. Although none of these notes have been settled to date with shares, if all notes outstanding at December 31, 2014 were to be settled with shares, the Company would issue approximately 444,886 shares of common stock. These notes do not require remeasurement to fair value after the business combination dates.

During 2011, the Company issued two convertible promissory notes with an aggregate principal value of \$3.4 million as part of total consideration paid for acquisitions and were recorded at fair value on the date of issuance, maturing in 2012 and 2013. The holder was able to convert all or a portion of the principal and interest into shares of the Company's common stock at any time, but not later than the maturity date at a fixed conversion rate of \$5.00 per share. In addition, the Company had the option to deliver at any time prior to and including the maturity date any portion of the outstanding principal and accrued interest in shares of common stock. The conversion price at which the principal and accrued interest subject to settlement would be converted to common stock is the lesser of (i) the volume weighted average price for the five trading days on NASDAQ immediately prior to the date of conversion, and (ii) the fixed conversion rate; provided, however, that the closing price per share of common stock as reported on NASDAQ on the trading day immediately preceding the date of conversion was not less than \$5.00. The notes were convertible by the holder into a maximum 675,040 shares of the Company's common stock although conversion never occurred. The Company made the last required cash payment on these notes during the fourth quarter of 2012. These notes were carried at fair value and the Company adjusted their carrying value to fair value through operating results as described further in Note 9, "Fair Value Measurements."

Equipment Financing

In August 2011, the Company entered into an agreement, which provided financing up to \$16.4 million for new and used trucks, carts, compactors, and containers for the Waste segment. The financing consisted of one or more fixed rate loans that had a term of five years. The interest rate for borrowings under this facility was determined at the time of each such borrowing and was based on a spread over the five year U.S. swap rate. The commitment letter had an expiration date of February 2012, with a renewal option of six months, if approved. During 2011, the Company made borrowings of \$8.9 million at an average interest rate of 3.55%. Separately in August 2011, the Company entered into an agreement to finance new and replacement vehicles for its fleet that allowed for one or more fixed rate loans totaling, in the aggregate, no more than \$18.6 million. The commitment, which expired in June 2012, was secured by Waste segment's vehicles and containers. The interest rate for borrowings under this facility were determined at the time of the loan and were based on a spread above the U.S. swap rate for the applicable term, either four or five years. Borrowings under this loan commitment were subject to the same financial covenants as the \$100.0 million credit facility discussed below and were \$6.9 million during 2011. Borrowings under these agreements were subsequently paid off using proceeds from the disposition of the Waste segment as discussed in Note 2, "Discontinued Operations and Assets Held for Sale."

2011 Revolving Credit Facilities

In March 2011, we entered into a \$100.0 million senior secured revolving Credit Facility (the "Credit Facility"), which replaced the Company's former credit facilities. Under the Credit Facility, the Company had an initial borrowing availability of \$32.5 million, which increased to the fully committed \$100.0 million upon delivery of our unaudited quarterly financial statements for the quarter ended March 31, 2011 and satisfaction of certain financial covenants regarding leverage and coverage ratios and a minimum liquidity requirement, which requirements we met as of March 31, 2011. Borrowings under the Credit Facility were secured by a first priority lien on substantially all existing and subsequently acquired assets, including \$25.0 million of cash on borrowings in excess of \$75.0 million. Furthermore, borrowings under the facility were guaranteed by all domestic subsidiaries and secured by substantially all assets and stock of domestic subsidiaries and substantially all stock of foreign subsidiaries. Interest on borrowings under the Credit Facility typically accrued at London Interbank Offered Rate ("LIBOR") plus 2.5% to 4.0%, depending on the ratio of senior debt to "Adjusted EBITDA" (as such term is defined in the credit facility, which included specified adjustments and allowances authorized by the lender). The Company also had the option to request swingline loans and borrowings using a base rate. Interest was payable monthly or quarterly on all outstanding borrowings.

Borrowings and availability under the Credit Facility were subject to compliance with financial covenants, including achieving specified consolidated Adjusted EBITDA levels and maintaining leverage and coverage ratios and a minimum liquidity requirement. The Credit Facility also placed restrictions on our ability to incur additional indebtedness, to make certain acquisitions, to create liens or other encumbrances, to sell or otherwise dispose of assets, and to merge or consolidate with other entities or enter into a change of control transaction. In August 2011, the Company entered into an amendment to the Credit Facility that modified the covenants, including an increase in permitted new indebtedness to \$40.0 million. The Credit Facility was subject to other standard default provisions. During 2012, we amended our Credit Facility with Wells Fargo Bank, National Association on each of April 12, 2012, May 15, 2012, June 28, 2012, July 30, 2012, August 31, 2012, September 27, 2012, and October 31, 2012, in each case, primarily to extend the dates by which we were required to file our 2011 Form 10-K and Forms 10-Q for the quarters ended March 31, 2012, June 30, 2012 and September 30, 2012 and to avoid potential defaults for not timely filing these reports. In addition, the August 31, 2012 amendment reduced the Company's maximum borrowing limit to \$50.0 million, provided that the Company met certain borrowing base requirements. The September 27, 2012 amendment further reduced the Company's maximum borrowing limit to \$25.0 million, provided that the Company met certain modified borrowing base requirements. The October 31, 2012 amendment required the Company to place certain amounts in a collateral account under the sole control of the administrative agent to meet the Company's unencumbered liquidity requirements. In connection with the sale of our Waste segment on November 15, 2012, as discussed in Note 2 "Discontinued Operations and Assets Held for Sale," we paid off the Credit Facility which resulted in its termination.

2014 Revolving Credit Facility

On August 29, 2014, the Company entered into a \$20.0 million revolving credit facility, through the execution of a Loan and Security Agreement, by and among the Company, as Guarantor, and certain subsidiaries of the Company, collectively, as Borrower, and Siena Lending Group LLC, as Lender (the "Credit Facility"). The Credit Facility matures on August 29, 2017. Interest on borrowings under the Credit Facility will accrue at the Base Rate plus 2.00% and will be payable monthly. Base Rate is defined as the greater of (1) the Prime Rate, (2) the Federal Funds Rate plus 0.50%, or (3) 3.25%. Borrowings and availability under the Credit Facility are subject to a borrowing base and limitations, and compliance with other terms specified in the agreement. Borrowings under the Credit Facility are secured by a first priority lien on certain of the Company's and its subsidiaries' assets. The calculated borrowing base as of December 31, 2014 was \$13.3 million, of which \$4.4 million was outstanding under letters of credit and \$8.9 million was unused. The Credit Facility contains certain customary representations and warranties, and certain customary covenants on the Company's ability to, among other things, incur additional indebtedness, create liens or other encumbrances, sell or otherwise dispose of assets, pay dividends, and merge or consolidate with other entities or enter into a change of control transaction. The Credit Facility contains various events of default. The Company was not in default with covenants under the Credit Facility as of December 31, 2014. As of March 30, 2015, the balance on the Credit Facility is \$3.2 million.

NOTE 9 — FAIR VALUE MEASUREMENTS

The fair value of the above convertible promissory notes issued as part of acquisitions is based primarily on a Black-Scholes pricing model. The significant management assumptions and estimates used in determining the fair value include the expected term and volatility of the Company's common stock. The expected volatility is based on an analysis of industry peer's historical stock price over the term of the note, which is estimated at approximately 25.0%. The Company believes that using a peer group stock volatility rate is appropriate given the Company's relatively short history as a public company, which involved a high growth phase and the audit committee investigation, discussed further in Note 16 "Commitments and Contingencies," which resulted in the delinquent filings of certain of the Company's financial statement filings with the SEC related to 2011 and 2012. The convertible promissory notes are Level 3 financial instruments since they are not traded on an active market and there are unobservable inputs, such as expected volatility used to determine the fair value of these instruments.

In addition, during 2011, the Company issued an earn-out that was to be settled in up to 90,909 shares of common stock held in escrow within one year from the date of acquisition or once the acquired business's revenue achieves an agreed upon level. In 2012, the Company released from escrow all 90,909 shares of common stock to the sellers. The following table is a reconciliation of changes in fair value of the notes and contingent earn-outs that are required to be marked to market each subsequent reporting period under generally acceptable accounting principles, and have been classified as Level 3 in the fair value hierarchy for the years ended December 31, 2014 and 2013:

	2014	2013
Balance at beginning of period	\$ -	\$ 886
Settlement/conversion of convertible promissory notes	-	(886)
Balance at end of period	<u>\$ -</u>	<u>\$ -</u>

In connection with a distribution agreement entered into in December 2010, the Company provided a guarantee that the distributor's operating cash flows associated with the agreement would not fall below certain agreed-to minimums, subject to certain pre-defined conditions, over the ten year term of the distribution agreement. If the distributor's annual operating cash flow does fall below the agreed-to annual minimums, the Company will reimburse the distributor for any such short fall up to a pre-designated amount. No value was assigned to the fair value of the guarantee at December 31, 2014 and December 31, 2013 based on a probability assessment of the projected cash flows. This liability would be considered a Level 3 financial instrument given the unobservable inputs used in the projected cash flow model. There have been no transfers between Level 1, 2, and 3 financial instruments during the three years ended December 31, 2014.

Non-Recurring Fair Value Measurements

There were no assets held for sale at December 31, 2014. The asset held for sale balance at December 31, 2013 was \$4.5 million. Total impairment adjustments to the estimated fair value of the Company's assets held for sale for the twelve months ended December 31, 2014 and 2013 were \$3.0 million and \$6.4 million, respectively. Fair value is based on the estimated net proceeds from the sale of the assets which are derived based on a number of factors; including standard industry multiples of revenues or operating metrics and the status of ongoing sales negotiations and asset purchase agreements where available. Our estimates of fair value are regularly reviewed and subject to changes based on market conditions, changes in the customer base of the operations or routes and our continuing evaluation as to the facility's acceptable sale price. These assets are measured using Level 3 inputs.

NOTE 10 — ADVANCES FROM SHAREHOLDERS

In August 2010, the Company borrowed \$2.0 million for working capital purposes, pursuant to an unsecured note payable to one of its shareholders that bore interest at the short-term Applicable Federal Rate. The note was paid in full following the sale of the Waste segment which is discussed in Note 2 "Discontinued Operations and Assets Held for Sale". As of the date of the Merger, the Company had borrowed \$21.4 million under an unsecured note payable to one of its shareholders. The note bore interest at the one month LIBOR plus 2.0%. Interest accrued on the note was included in accrued expenses and was \$0.8 million as of the date of the Merger. These advances plus accrued interest were converted into equity upon completion of the Merger.

NOTE 11 — OTHER RELATED PARTY TRANSACTIONS

The Company paid fees for training course development and utilization of the delivery platform from a company, the majority of which is owned by a partnership in which a former director and two former executives of the Company have a controlling interest. Fees paid during fiscal years 2014, 2013 and 2012 were \$0.1 million in each of the three years.

The Company purchased chemical products from an entity owned, in full or in part, by a Company employee. Purchases were \$5.4 million, \$7.2 million and \$7.4 million for the fiscal years ended 2014, 2013, and 2012, respectively. At December 31, 2014 and 2013, the Company has \$0.3 million and \$0.6 million included in accounts payable to these entities, respectively.

During the year ended December 31, 2014, the Company was obligated to make lease payments pursuant to certain real property and equipment lease agreements with employees that were former owners of acquired companies. During 2014, 2013, and 2012, the Company paid \$0.9 million, \$1.2 million and \$1.3 million, respectively, related to these leases.

In connection with the acquisition of Choice, we entered into capital leases that had initial terms of five or ten years with companies owned by former shareholders of Choice, to finance the cost of leasing office buildings and properties, including warehouses. The Company sold its Waste segment, which consisted principally of Choice, during the fourth quarter of 2012, as more fully described in Note 2, "Discontinued Operations and Assets Held for Sale," and in connection therewith transferred all remaining capital lease obligations to the buyers.

NOTE 12 — INCOME TAXES

Net loss from continuing operations before income taxes for the years ended December 31, 2014, 2013 and 2012 includes:

	2014	2013	2012
Domestic	\$ (42,457)	\$ (152,061)	\$ (61,400)
Foreign	(4,440)	(1,065)	(622)
Net loss from continuing operations before income taxes	\$ (46,897)	\$ (153,126)	\$ (62,022)

The components of the income tax (benefit) expense on continuing operations for the years ended December 31, 2014, 2013 and 2012 includes:

	2014	2013	2012
Current Federal, state and foreign	\$ 2	\$ (41)	\$ 383
Deferred:			
Federal and state	13	(2,596)	18,565
Foreign	(104)	43	(195)
Total income tax (benefit) expense	\$ (89)	\$ (2,594)	\$ 18,753

A reconciliation of the statutory U.S. Federal income tax rate to the Company's effective income tax rate applicable to continuing operations for the years ended December 31, 2014, 2013, and 2012 is as follows:

	2014	2013	2012
U.S. Federal statutory rate	35%	35%	35%
State and local taxes, net of Federal benefit	3	3	3
Goodwill impairment	(1)	(3)	-
Other permanent expenses	(1)	-	-
Change in valuation allowance	(36)	(33)	(68)
Effective income tax rate	- %	2%	(30) %

Deferred income taxes reflect the net tax effect of temporary differences between amounts recorded for financial reporting purposes and amounts used for tax purposes. The major components of deferred tax assets and liabilities from continuing operations are as follows:

	2014	2013
Deferred tax assets		
Basis difference in goodwill	\$ 26,449	\$ 29,040
Net operating loss carryforward	55,862	39,772
Basis difference in other intangible assets	3,462	2,838
Stock based compensation	3,498	3,382
Allowance for uncollectible receivables	1,184	908
State basis difference in property and equipment	890	916
Inventory	550	1,559
Accrued liabilities	1,827	2,205
Other	127	127
Total deferred income tax assets	93,849	80,747
Valuation allowance	(86,784)	(71,363)
Net deferred tax assets	7,065	9,384
Deferred tax liabilities		
Basis difference in property and equipment	7,089	9,502
Total deferred tax liabilities	7,089	9,502
Total net deferred income tax liabilities	\$ 24	\$ 118

The net deferred income tax liability of \$0.1 million as of December 31, 2014 consists of the current asset of \$0.5 million and non-current liability of \$0.6 million. The net deferred income tax liability of \$0.1 million as of December 31, 2013 consists of the current asset of \$0.9 million and non-current liability of \$1.0 million.

For the year ended December 31, 2013, there was a deferred tax liability associated with excess book over tax goodwill as it relates to the Company's Canadian subsidiary. As goodwill is considered to be an indefinite lived intangible, this associated deferred tax liability is not allowed to be netted with other deferred tax assets in determining the need for a valuation allowance. This resulted in an overall net deferred tax liability after applying the valuation allowance.

Due to the impairment of goodwill for book purposes as of June 30, 2014, a deferred tax asset exists related to goodwill for the Canadian subsidiary. Given the change from 2013 to 2014, from a deferred tax liability to a deferred tax asset, a tax benefit for 2014 of approximately \$0.1 million was recognized.

On September 13, 2013 the U.S. Department of the Treasury issued final regulations that provide guidance on capitalization of tangible property. These regulations will result in our adoption of certain accounting method changes with respect to property and equipment, inventory and supplies. We are currently analyzing these accounting method changes, which will be adopted during the 2015 tax year, but we do not believe they will have a material impact on the consolidated financial statements.

The Company has incurred significant net losses for financial reporting purposes. Recognition of deferred tax assets will require generation of future taxable income. A valuation allowance is required to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. During the twelve month period ended December 31, 2014, the Company concluded that the likelihood of realization of the benefits associated with its U.S. deferred tax assets does not reach the level of more likely than not. As a result, the Company continues to recognize a full valuation allowance on all U.S. deferred tax assets as of at December 31, 2014. As of each reporting date, the Company will consider new evidence, both positive and negative, that could impact its view with regard to future realization of deferred tax assets. The Company does not consider the deferred tax liabilities related to indefinite lived intangible assets when determining the need for a valuation allowance.

At December 31, 2014 and 2013, net operating loss ("NOL") carryforwards for federal income tax purposes were \$145.9 million and \$104.4 million. The Federal NOL's will begin to expire in 2030 and the various state NOL's will begin to expire between the years 2025 and 2030.

We have no recorded uncertain tax positions, therefore, there would be no impact to the effective tax rate. The Company includes interest and penalties accrued in the consolidated financial statements as a component of interest expense. No significant amounts were required to be recorded as of December 31, 2014 and 2013 or during the three year period ended December 31, 2014. The tax years ended December 31, 2011 through December 31, 2014 are considered to be open under statute and therefore may be subject to examination by the Internal Revenue Service and various state jurisdictions. We do not expect the unrecognized tax benefits to change significantly over the next 12 months.

NOTE 13 — EQUITY MATTERS

Comprehensive Loss

A summary of the changes in each component of accumulated other comprehensive loss for the year ended December 31, 2014 is provided below:

	Foreign Exchange	Defined Benefit Plan	Total
Balance at December 31, 2013	\$ (94)	\$ (435)	\$ (529)
Current period other comprehensive loss	(31)	(747)	(778)
Balance at December 31, 2014	<u>\$ (125)</u>	<u>\$ (1,182)</u>	<u>\$ (1,307)</u>

Stock Based Compensation

In November 2010, our board of directors approved, subject to shareholder approval, the Swisher Hygiene Inc. 2010 Stock Incentive Plan (the “SIP Plan”) to attract, retain, motivate and reward key officers and employees. The SIP Plan, which was approved by shareholders in May 2011 allows for the grant of stock options, restricted stock units and other equity instruments up to a total of 1,140,000 shares of the Company’s common stock.

All options are exercisable at a price equal to the closing market value of the Company’s common stock on the date immediately preceding the grant. Options generally vest in four equal annual installments beginning on the first anniversary of the grant date and generally expire ten years from the date of grant. Restricted stock units are issued at the closing market value of the Company’s common stock on the date immediately preceding the grant and generally vest over four years with the first vesting occurring twelve months after the award and the remaining vesting occurring on the subsequent anniversary dates of the award. Recipients of both options and restricted stock units may not sell or transfer their shares until the recipient receives the shares underlying the award.

Stock Option Activity

A summary of the Company’s stock option activity and related information for 2014 and 2013 is as follows:

	Number of Options	Outstanding Options		
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Balance at December 31, 2012	305,366	\$ 43.84		
Options granted	321,632	\$ 7.89		
Options cancelled	(101,118)	\$ 46.14		
Options exercised	-			
Balance at December 31, 2013	525,880	\$ 22.05		
Options granted	378,000	\$ 4.10		
Options cancelled	(194,634)	\$ 18.00		
Options exercised	-			
Balance at December 31, 2014	<u>709,246</u>	<u>\$ 13.59</u>	<u>8.66</u>	<u>\$ -</u>
Expected to Vest after December 31, 2014	138,094	\$ 12.21	8.47	\$ -
Exercisable at December 31, 2014	153,924	\$ 33.85	7.05	\$ -

The aggregate intrinsic value represents the value of the Company’s closing stock price on the last trading day of the fiscal period in excess of the weighted average exercise price multiplied by the number of options outstanding or exercisable. Total intrinsic value of options at time of exercise was \$0.0 million, \$0.0 million and \$0.2 million for 2014, 2013 and 2012, respectively. The weighted average grant-date fair value of options granted was \$1.47, \$2.80 and \$7.20 for 2014, 2013 and 2012, respectively.

In connection with the Merger, options previously issued by CoolBrands that were outstanding at the date of the Merger were fully vested and all related compensation expense was recognized by CoolBrands prior to November 2, 2010, the Merger date. At December 31, 2012, 17,500 options remain outstanding and exercisable at a weighted average price of \$7.89, weighted average remaining contractual life of 1.6 years and an aggregate intrinsic value of \$0.2 million. At December 31, 2013, 17,500 options remain outstanding and exercisable at a weighted average price of \$7.89, weighted average remaining contractual life of 0.6 years and an aggregate intrinsic value of \$0.0 million. At December 31, 2014, 6,000 options remain outstanding and exercisable at a weighted average price of \$11.50, weighted average remaining contractual life of 0.2 years and an aggregate intrinsic value of \$0.0 million.

The exercise prices for options granted during 2014 and 2013 ranged from \$4.04 to \$4.80 per share and \$5.90 to \$9.30 per share, respectively.

Restricted Stock Units

A summary of the Company's restricted stock activity for 2014 and 2013 is as follows:

	Number of Restricted Stock Units	Weighted - Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Balance at December 31, 2012	89,660	\$ 51.47	\$ 1.6
Granted	32,229	\$ 12.32	
Vested	(66,921)	\$ 31.57	
Forfeited	(16,782)	\$ 40.53	
Balance at December 31, 2013	38,186	\$ 56.06	\$ 0.2
Granted	53,873	\$ 3.71	
Vested	(73,786)	\$ 17.67	
Forfeited	(11,507)	\$ 42.26	
Balance at December 31, 2014	6,766	\$ 81.38	\$ -

Stock Based Compensation

Stock based compensation cost for stock options as calculated by the Company using Black-Scholes option-pricing model with the following assumptions:

	2014	2013	2012
Expected dividend yield	-	-	-
Risk free interest rate	1.9% - 2.0%	1.5% - 1.9%	0.9% - 1.2%
Expected volatility	32.70%	30.70%	30.70%
Expected life (years)	6.25	6.25	6.25

The expected dividend yield was assumed to be zero as we have not paid, and do not anticipate paying, cash dividends on our shares of common stock. The risk-free interest rate is determined based on a yield curve of U.S. treasury rates based on the expected life of the options granted. The expected volatility was based on an analysis of industry peers historical stock price and the terms of the equity awards. The Company believes that using a peer group stock volatility rate is appropriate given the Company's relatively short history as a public company, which involved a high growth phase and the audit committee investigation discussed further in Note 15 "Commitments and Contingencies," both of which occurred in 2012. The expected life is based on the simplified method as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected life of our stock options. The Company estimates forfeitures based on estimated turnover by relevant employee categories. The Company recognizes stock based compensation on a straight line basis over the requisite service period.

For the years ended December 31, 2014, 2013 and 2012, the Company recognized stock based compensation expense of \$1.7 million, \$2.9 million and \$3.5 million, respectively, in the consolidated statements of operations for both stock options and restricted stock units. At December 31, 2014, the total unrecognized compensation costs related to outstanding stock options and restricted stock units is \$1.0 million.

Subsequent to the Company's notification from NASDAQ in June of 2013, that indicated the Company had completed all outstanding filing requirements and had regained compliance with NASDAQ listing rules, the Company was in a position to settle previously vested RSUs. During 2013, the Company issued the underlying 832,819 shares of common stock and withheld 274,061 shares to cover the required statutory withholding tax totaling \$0.2 million, which was determined based on the closing price of our common stock on the date of issuance. These shares are considered retired under the provisions of the Swisher Hygiene Inc. 2010 Stock Incentive Plan. See Note 16, "Commitments and Contingencies" - in the Other Related Matters section.

NOTE 14 — RETIREMENT PLAN

An acquired subsidiary of CoolBrands maintained a defined benefit pension plan (the "Plan") covering substantially all salaried and certain executive employees. Subsequent to the acquisition of this subsidiary in 2000 by CoolBrands, all future participation and all benefits under the Plan were frozen. The Plan provides retirement benefits based primarily on employee compensation and years of service up to the date of acquisition. As part of the Merger, on November 2, 2010, Swisher recorded the net underfunded pension obligation of \$0.6 million.

The following table reconciles the changes in benefit obligations and Plan assets as of December 31, 2014 and 2013 and reconciles the funded status to accrued benefit cost at December 31, 2014 and 2013:

	Benefit Obligation (In thousands)
At December 31, 2012	\$ 3,421
Interest cost	125
Actuarial gain	(353)
Benefit payments	(117)
At December 31, 2013	3,076
Interest cost	139
Actuarial loss	697
Benefit payments	(117)
At December 31, 2014	\$ 3,795
	Plan Assets (In thousands)
At December 31, 2012	\$ 2,045
Actual return on plan assets	272
Employer contributions	21
Benefit payments	(117)
At December 31, 2013	2,221
Actual return on plan assets	108
Employer contributions	98
Benefit payments	(117)
At December 31, 2014	\$ 2,310

As of December 31, 2014 and 2013, the net underfunded status of the defined benefit plan is \$1.5 million and \$0.8 million, respectively, which is recognized as accrued benefit cost in other long-term liabilities on the Consolidated Financial Statements. Unrecognized (gains) losses recorded in accumulated other comprehensive loss in the consolidated financial statements were (\$1.2) million, (\$0.5) million and \$0.1 million for the periods ended December 31, 2014, 2013 and 2012, respectively.

The following table provides the components of the net periodic benefit cost (income) for each of the respective fiscal years:

	2014	2013	2012
Interest cost	\$ 139	\$ 125	\$ 131
Expected return on Plan assets	(166)	(149)	(138)
Recognized net actuarial loss	8	27	21
Net periodic benefit cost (income)	<u>\$ (19)</u>	<u>\$ 3</u>	<u>\$ 14</u>

The key assumptions used in the measurement of the benefit obligation are the discount rate and the expected return on Plan assets for each of the respective years are:

	2014	2013	2012
Discount rate	3.8%	4.6%	3.7%
Expected return on Plan assets	7.5%	7.5%	7.5%

The rate used to discount pension benefit plan liabilities was based on the Citigroup Pension Discount Curve at December 31, 2014 and 2013. The estimated future cash flows for the pension obligation were matched to the corresponding rates on the yield curve to derive a weighted average discount rate.

The expected return on Plan assets was developed by determining projected stock and bond returns and then applying these returns to the target asset allocations of the employee benefit trusts, resulting in a weighted average return on Plan assets. The actual historical returns of the Plan assets were also considered.

Based on the latest actuarial report as of December 31, 2014, the Company expects that there will be minimum regulatory funding requirements of \$0.1 million that will need to be made during fiscal 2015.

Expected benefit payments under the Plan over future years are: 2015 - \$0.1 million, 2016 - \$0.2 million, 2017 - \$0.2 million, 2018 - \$0.2 million, 2019 - \$0.2 million and 2020 to 2024 – \$1.0 million.

Plan Assets

The Company's investment strategy is to obtain the highest possible return commensurate with the level of assumed risk. Investments are well diversified within each of the major asset categories. The Company's allocation of Plan assets and target allocations are as follows:

	Fair Value Measurements Level 1 as of December 31,	
	2014	2013
Equities:		
U. S.	\$ 1,116	\$ 1,205
International	337	340
Fixed Income:		
U. S.	560	554
International	82	81
Cash, cash equivalents and other	215	51
Total	<u>\$ 2,310</u>	<u>\$ 2,231</u>

The U.S. and International equities are actively traded on a public exchange and are considered Level 1 assets. The fixed income securities are corporate and government bonds that are valued based on prices in active markets for identical transactions and are considered Level 1 assets. There were no Plan assets categorized as Level 2 or Level 3 as of December 31, 2014 or 2013. There were no significant transfers between Level 1, 2, or Level 3 during the fiscal years 2014 or 2013. See Note 1, "Operations and Summary of Significant Accounting Policies," for a description of the fair value hierarchy.

NOTE 15 — LOSS PER SHARE

Basic net loss from continuing operations and discontinuing operations attributable to common stockholders per share is computed by dividing the applicable net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Shares of common stock underlying outstanding stock options of which the market price of the common stock is lower than the exercise price of the related options were not considered for any dilutive earnings per share calculation. Shares of common stock underlying unvested restricted stock awards of 6,766, 38,234 and 395,180 were not included in the computation of diluted loss per share for 2014, 2013 and 2012, respectively, as their inclusion would be anti-dilutive.

NOTE 16 — COMMITMENTS AND CONTINGENCIES

We may be involved in litigation from time to time in the ordinary course of business. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our business, financial condition or results of operations. However, the results of these matters cannot be predicted with certainty and we cannot assure you that the ultimate resolution of any legal or administrative proceedings or disputes will not have a material adverse effect on our business, financial condition and results of operations.

Securities Litigation

Between March 30, 2012 and May 24, 2012, six stockholder lawsuits were filed in federal courts in North Carolina and New York asserting claims relating to the Company's March 28, 2012 announcement regarding the Company's Board's conclusion that the Company's previously issued interim financial statements for the quarterly periods ended March 31, 2011, June 30, 2011 and September 30, 2011, and the other financial information in the Company's quarterly reports on Form 10-Q for the periods then ended, should no longer be relied upon and that an internal review by the Company's Audit Committee primarily relating to possible adjustments to the Company's financial statements was ongoing.

On March 30, 2012, a purported Company stockholder commenced a putative securities class action on behalf of purchasers of the Company's common stock in the U.S. District Court for the Southern District of New York against the Company, the former President and Chief Executive Officer ("former CEO"), and the former Vice President and Chief Financial Officer ("former CFO"). The plaintiff asserted claims alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") based on alleged false and misleading disclosures in the Company's public filings. In April and May 2012, four more putative securities class actions were filed by purported Company stockholders in the U.S. District Court for the Western District of North Carolina against the same set of defendants. The plaintiffs in these cases asserted claims alleging violations of Sections 10(b) and 20(a) of the Exchange Act based on alleged false and misleading disclosures in the Company's public filings. In each of the putative securities class actions, the plaintiffs sought damages for losses suffered by the putative class of investors who purchased the Company's common stock.

On May 21, 2012, a stockholder derivative action was brought against the Company's former CEO and former CFO and the Company's then directors for alleged breaches of fiduciary duty by another purported Company stockholder in the Southern District of New York. In this derivative action, captioned *Arsenault v. Berrard, et al.*, 1:12-cv-4028, the plaintiff seeks to recover for the Company damages arising out of the then possible restatement of the Company's financial statements.

On May 30, 2012, the Company, its former CEO and former CFO filed a motion with the United States Judicial Panel on Multidistrict Litigation ("MDL Panel") to centralize all of the cases in the Western District of North Carolina by requesting that the actions filed in the Southern District of New York be transferred to the Western District of North Carolina. In light of the motion to centralize the cases in the Western District of North Carolina, the Company, its former CEO and former CFO requested from both courts a stay of all proceedings pending the MDL Panel's ruling. On June 4, 2012, the Southern District of New York adjourned all pending dates in the cases in light of the motion to transfer filed before the MDL Panel. On June 13, 2012, the Western District of North Carolina issued a stay of proceedings pending a ruling by the MDL Panel.

On August 13, 2012, the MDL Panel granted the motion to centralize, transferring the actions filed in the Southern District of New York to the Western District of North Carolina as part of MDL No. 2384, captioned *In re Swisher Hygiene, Inc. Securities and Derivative Litigation*. In response, on August 21, 2012, the Western District of North Carolina issued an order governing the practice and procedure in the actions transferred to the Western District of North Carolina as well as the actions originally filed there. On October 18, 2012, the Western District of North Carolina held an Initial Pretrial Conference at which it appointed lead counsel and lead plaintiffs for the securities class actions, and set a schedule for the filing of a consolidated class action complaint and defendants' time to answer or otherwise respond to the consolidated class action complaint. The Western District of North Carolina stayed the *Arsenault* derivative action pending the outcome of the securities class actions.

On April 24, 2013, lead plaintiffs filed their first amended consolidated class action complaint (the "Class Action Complaint") asserting similar claims as those previously alleged as well as additional allegations stemming from the Company's restated financial statements. The Class Action Complaint also named the Company's former Senior Vice President and Treasurer as an additional defendant who was later dismissed from the case. On June 24, 2013, defendants moved to dismiss the Class Action Complaint. Briefing on the motions to dismiss was completed on August 9, 2013.

Although the Company believed it had meritorious defenses to the asserted claims in the securities class actions in the United States, the defendants and plaintiffs agreed to the terms of a settlement and on February 5, 2014 executed a settlement agreement that, following approval by the Western District of North Carolina, would resolve all claims in the securities class actions pending there (the "Settlement"). The Settlement provided that the defendants would make a set cash payment totaling \$5,500,000, all from insurance proceeds, to settle all of the securities class actions, and full and complete releases would be provided to defendants. On March 11, 2014, the Western District of North Carolina issued a preliminary order approving the Settlement, and scheduled a hearing for August 6, 2014. That same day, the Western District of North Carolina also issued an order terminating defendants' pending motions to dismiss the Class Action Complaint as moot in light of the Settlement. On August 6, 2014, following a hearing, the Western District of North Carolina approved the Settlement, and issued an Order and Final Judgment that, among other things, dismissed the securities class actions pending in the United States with prejudice and provided for full and complete releases to defendants. The Arsenault derivative action is still pending.

On June 11, 2013, an individual action was filed in the U.S. District Court for the Southern District of Florida captioned *Miller, et al. v. Swisher Hygiene, Inc., et al.*, No. 0:13-CV-61292-JAL, against the Company, its former CEO and former CFO, and a former Company director, bringing state and federal claims founded on the allegations that in deciding to sell their company to the Company, plaintiffs relied on defendants' statements about such things as the Company's accounting and internal controls, which, in light of the Company's restatement of its financial statements, were false. On July 17, 2013, the Company notified the MDL Panel of this action, and requested that it be transferred and centralized in the Western District of North Carolina with the other actions pending there. On July 23, 2013, the MDL Panel issued a Conditional Transfer Order (the "Miller CTO"), conditionally transferring the case to the Western District of North Carolina. On July 29, 2013, plaintiffs notified the MDL Panel that they would seek to vacate the Miller CTO. In light of the proceedings in the MDL Panel, defendants requested that the Southern District of Florida stay all proceedings pending the MDL Panel's ruling. On August 6, 2013, the Southern District of Florida issued a stay of all proceedings pending a ruling by the MDL Panel. On October 2, 2013, following briefing on the issue of whether the Miller CTO should be vacated, the MDL Panel issued an order transferring the action to the Western District of North Carolina. The Company and the individual defendants filed motions to dismiss the complaint on March 20, 2014. Briefing on the motions to dismiss was completed on May 12, 2014. On June 2, 2014, plaintiffs filed a motion with the Western District of North Carolina seeking a suggestion for remand from that Court to the MDL Panel. Briefing on that motion was completed on June 26, 2014. Oral argument on the motions to dismiss and motion for suggestion for remand were heard on July 22, 2014. On August 5, 2014, the Western District of North Carolina denied plaintiffs' motion for suggestion for remand. On October 22, 2014, the Company filed a notice of supplemental authority in support of its motion to dismiss the complaint in this action. On November 4, 2014, plaintiffs filed a response to the notice of supplemental authority.

On July 11, 2013, a purported stockholder filed a derivative action on behalf of the Company in the General Court of Justice, Superior Court Division in the State of North Carolina, Mecklenburg County, captioned *Borthwick v. Berrard, et al.*, No. 13-CVS-12397. The action asserted claims against the Company as a nominal defendant, its former CEO and former CFO, and certain former and current Company directors for breaches of fiduciary duties, gross mismanagement, abuse of control, waste of corporate assets, and aiding and abetting thereof in connection with the Company's restatement of its financial statements. Among other things, the action sought damages on behalf of the Company and an order directing the Company to implement corporate governance reforms. On August 7, 2013, the Company filed a notice to remove the action from the General Court of Justice, Superior Court Division in the State of North Carolina, Mecklenburg County to the Western District of North Carolina. On August 30, 2013, the Company moved to consolidate this action with the actions previously consolidated before the Western District of North Carolina, and to stay the action. On September 25, 2013, the Western District of North Carolina granted the Company's motion to consolidate and stay the action. On October 23, 2014, following its approval of the settlement of the securities class actions, the Western District of North Carolina set a briefing schedule whereby the Company, as nominal defendant, filed a motion to dismiss the derivative action on November 4, 2014. Pursuant to the schedule, the remaining defendants did not need to file any motions to dismiss until after the Court ruled on the Company's motion. On December 10, 2014, the parties filed a Stipulation and Proposed Order for the dismissal of the complaint filed in this action with prejudice. On December 11, 2014, the Western District of North Carolina issued an order dismissing the Borthwick action with prejudice.

On December 17, 2013, a purported stockholder commenced a putative securities class action on behalf of purchasers of the Company's common stock on the Toronto Stock Exchange or any other Canadian trading platforms in the Ontario Superior Court of Justice, captioned *Edwards v. Swisher Hygiene, Inc., et al.*, CV 13-20282 CP, against the Company, the former CEO and former CFO. The action alleges claims under Canadian law for alleged misrepresentations of the Company's financial position relating to its business acquisitions. On February 13, 2014, a Fresh Statement of Claim and Fresh Notice of Action were filed, adding an additional named plaintiff. On March 28, 2014, another purported stockholder commenced a putative securities class action on behalf of purchasers of the Company's common stock on the Toronto Stock Exchange or any other Canadian trading platforms in the Ontario Superior Court of Justice, captioned *Phillips v. Swisher Hygiene, Inc., et al.*, CV 14-00501096-0000, against the Company, the former CEO, the former CFO and the Company's former Senior Vice President and Treasurer. The action alleges claims under Canadian law stemming from the Company's restatement.

Although the Company believed it had meritorious defenses to the asserted claims in the two securities class actions pending in Canada, the defendants agreed to terms of settlement and executed a settlement agreement resolving all claims in both securities class actions pending there, which was approved by the Ontario Superior Court of Justice by Order dated February 13, 2015 (the "Canadian Settlement"). The Canadian Settlement provides that defendants will make a set cash payment totaling \$0.7 million, including legal fees, all from insurance proceeds, to settle all of the Canadian securities class actions, with full and complete releases provided to the defendants. Notice has been given of the Canadian Settlement.

Other Matters

The Company was contacted by the staff of the Atlanta Regional Office of the SEC and by the United States Attorney's Office for the Western District of North Carolina (the "U.S. Attorney's Office") after publicly announcing the Audit Committee's internal review and the delays in filing our periodic reports. The Company has been asked to make certain individuals available and to provide certain information about these matters to the SEC and the U.S. Attorney's Office. The Company is fully cooperating with the SEC and the U.S. Attorney's Office. Any action by the SEC, the U.S. Attorney's Office or other government agency could result in criminal or civil sanctions against the Company and/or certain of its current or former officers, directors or employees.

Purchase Obligations and Leases

In connection with a distribution agreement entered into in December 2010, the Company provided a guarantee that the distributor's operating cash flows associated with the agreement would not fall below certain agreed-to minimums, subject to certain pre-defined conditions, over the ten year term of the distribution agreement. If the distributor's annual operating cash flow does fall below the agreed-to annual minimums, the Company will reimburse the distributor for any such short fall up to a pre-designated amount. As discussed in Note, 9 "Fair Value Measurements" no value was assigned to the fair value of the guarantee at December 31, 2014 and December 31, 2013 based on a probability assessment of the projected cash flows. Management currently does not believe that it is probable that any amounts will be paid under this agreement and thus there is no amount accrued for the guarantee in the Consolidated Financial Statements.

The Company entered into a Manufacturing and Supply Agreement (the "Cavalier Agreement") with another plant in conjunction with its acquisition of Sanolite in July of 2011. The Cavalier Agreement, which was scheduled to expire on December 31, 2012, was extended for an additional two year period with an automatic 18-month renewal term and a 6-month termination option. The Cavalier Agreement provides for pricing adjustments, up or down, on the first of each month based on the vendor's actual average product costs incurred during the prior month. Additional product payments made by the Company due to pricing adjustments under the Cavalier Agreement have not been significant and have not represented costs materially above the market price for such products. The Cavalier Agreement was terminated in September 2014 pursuant to the terms of the agreement.

The Company leases its headquarters and other facilities, equipment and vehicles under operating leases that expire at varying times through 2024. Future minimum lease payments for operating leases that had initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2014 are: 2015 - \$5.8 million, 2016 - \$4.8 million, 2017 - \$3.5 million, 2018 - \$2.5 million, 2019 - \$2.3 million, and thereafter - \$2.3 million.

Total rent expense for operating leases, including those with terms of less than one year was \$6.5 million, \$6.3 million and \$6.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

NOTE 17 — OTHER EXPENSE, NET

Other expense consists of the following for the years ended December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Interest Income	\$ 9	\$ 41	\$ 75
Interest Expense	(387)	(485)	(3,406)
Realized and unrealized gain/(loss) on fair value of convertible notes	-	-	66
Earn-out	-	-	170
Foreign Currency	(167)	(5)	(15)
Loss from impairment	-	-	(507)
Other	(1,118)	(205)	524
Total other expenses	<u>\$ (1,663)</u>	<u>\$ (654)</u>	<u>\$ (3,093)</u>

“Other” primarily consists of the loss related to the sale of assets held for sale for the years ended December 31, 2014 and 2013 as described further in Note 2, “Discontinued Operations and Assets Held for Sale”. During fiscal year 2012, a fire occurred at a linen warehouse of one of the Company’s subsidiaries in Tampa, Florida. The fire heavily damaged the leased building and its contents requiring the building to be demolished. After consideration of the insurance recoveries received, we recorded a gain in other (expense), net on the involuntary conversion of assets of approximately \$0.6 million in the fourth quarter of 2012.

NOTE 18 — GEOGRAPHIC INFORMATION

The following table includes our revenue from geographic locations for the years ended December 31, 2014, 2013, and 2012 were:

Geographic Information

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue			
United States	\$ 184,854	\$ 203,453	\$ 220,624
Canada	8,903	10,235	9,897
Total revenue	<u>\$ 193,757</u>	<u>\$ 213,688</u>	<u>\$ 230,521</u>

The following table summarizes our foreign long-lived assets, which relate to our Canadian subsidiaries, as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Long-Lived Assets		
Property and equipment, net	\$ 739	\$ 589
Goodwill	\$ -	\$ 3,291
Other intangibles, net	\$ 528	\$ 1,478

NOTE 19 — QUARTERLY FINANCIAL DATA (UNAUDITED)

2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenue	\$ 48,295	\$ 49,955	\$ 49,650	\$ 45,857	\$ 193,757
Gross profit (1)	\$ 26,483	\$ 26,982	\$ 26,979	\$ 24,212	\$ 104,656
Loss from continuing operations	\$ (13,038)	\$ (14,706)	\$ (7,613)	\$ (9,877)	\$ (45,234)
Net loss from continuing operations	\$ (13,792)	\$ (15,147)	\$ (7,776)	\$ (10,093)	\$ (46,808)
Basic and diluted loss per share	\$ (0.78)	\$ (0.86)	\$ (0.44)	\$ (0.56)	\$ (2.64)

2013					
Revenue	\$ 52,022	\$ 55,386	\$ 55,916	\$ 50,364	\$ 213,688
Gross profit (1)	\$ 29,457	\$ 30,987	\$ 30,682	\$ 26,977	\$ 118,103
Loss from operations	\$ (16,742)	\$ (14,456)	\$ (12,778)	\$ (108,496)	\$ (152,472)
Net loss from continuing operations	\$ (17,240)	\$ (14,885)	\$ (13,192)	\$ (105,215)	\$ (150,532)
Basic and diluted loss per share	\$ (0.98)	\$ (0.88)	\$ (0.75)	\$ (5.94)	\$ (8.55)

(1) Revenue less cost of sales, which is exclusive of route expense and related depreciation and amortization.

The following non-recurring transactions occurred during the fourth quarter of fiscal year 2013: (i) a \$93.2 million non-cash goodwill impairment charge recorded in conjunction with the performance of the Company's annual impairment test that is further described in Note 5, "Goodwill and Other Intangibles" in the Notes to the Consolidated Financial Statements and (ii) a \$3.1 million impairment charge related to assets held for sale that is further described in Note 2, Discontinued Operations and Assets Held for Sale," in the Notes to the Consolidated Financial Statements.

NOTE 20 – SUBSEQUENT EVENT

During March 2015, the Board of Directors of the Company approved a board resolution to sell its remaining non-core linen operation. During the first quarter of 2015, in accordance with ASC 360, *Property, Plant and Equipment*, these assets will be classified as assets held for sale and will be adjusted to the lower of historical carrying amount or fair value. The estimated fair value is derived based on the assessment of potential net selling prices. The carrying value of the assets will be compared to the estimated fair value and if applicable, any write down will be recognized in the first quarter of 2015. The Company expects the linen operation will be sold in the second quarter of 2015. The carrying value of the major classes of the assets are as follows:

	December 31, 2014
Accounts receivable, net	445
Property and equipment, net	1,957
Customer relationships, net	477
Other intangibles, net	330
Total	\$ 3,209

On March 26, 2015, the Company entered into a letter agreement, dated as of March 25, 2015 ("Letter Agreement"), with its lender, Siena Lending Group LLC, in respect of the occurrence of a Springing DACA Event, as such term is defined in the Credit Facility. The Letter Agreement temporarily waives, until April 10, 2015, certain cash management requirements and certain enhanced reporting requirements that would otherwise go into effect upon the occurrence of a Springing DACA Event.

CONSOLIDATED FINANCIAL STATEMENT SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED DECEMBER 31, 2014

In thousands

	Balance at the Beginning of the Year	Charged to Costs and Expenses	Deductions from Allowance	Balance at the End of the Year
31-Dec-14				
Allowances for receivables	\$ 1,999	\$ 196	\$ 1,219	\$ 976
Other allowances	892	-	76	816
	\$ 2,891	\$ 196	\$ 1,295	\$ 1,792
31-Dec-13				
Allowances for receivables	\$ 2,335	\$ 936	\$ 1,272	\$ 1,999
Other allowances	437	455	-	892
	\$ 2,772	\$ 1,391	\$ 1,272	\$ 2,891
31-Dec-12				
Allowances for receivables	\$ 2,185	\$ 2,396	\$ 2,246	\$ 2,335
Other allowances	471	-	34	437
	\$ 2,656	\$ 2,396	\$ 2,280	\$ 2,772