Computer Software Innovations, Inc.
Form 8-K
October 19, 2010

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, DC 20549**

# FORM 8-K

## CURRENT REPORT

**PURSUANT TO SECTION 13 OR 15(d) OF THE**

**SECURITIES EXCHANGE ACT OF 1934**

**Date of report (Date of earliest event reported) October 13, 2010**

# COMPUTER SOFTWARE INNOVATIONS, INC.

**(Exact name of registrant as specified in its charter)**

**Delaware**

**(State or other jurisdiction of incorporation)**

| **000-51758** | **98-0216911** |
|---|---|
| **(Commission File Number)** | **(IRS Employer Identification No.)** |

| **900 East Main Street, Suite T, Easley, South Carolina** | **29640** |
|---|---|
| **(Address of principal executive offices)** | **(Zip Code)** |

**(864) 855-3900**

**(Registrant s telephone number, including area code)**

**(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 1.01. Entry into a Material Definitive Agreement.**
On October 13, 2010, Computer Software Innovations, Inc. (the Company ) entered into an Amended and Restated Master Equity Lease by and among Enterprise Fleet Management, Inc., Enterprise FM Trust and the Company (the Amended and Restated Agreement ). At that time, the Company also entered into a Maintenance Agreement with Enterprise Fleet Management, Inc. (the Maintenance Agreement , collectively with the Amended and Restated Agreement referred to herein as the New Lease Arrangement ). Pursuant to the Amended and Restated Agreement, the lessor leases vehicles to the Company, which are evidenced under individual schedules. Under the Maintenance Agreement, the lessor provides maintenance of the vehicles at the election of the Company.

A vast majority of the leases have a term of thirty-six months, the earliest of which commenced in August 2008. The leases are accounted for by the Company as operating leases. The New Lease Arrangement is an amendment, restatement and continuation of that certain Master Equity Lease Agreement dated as of June 30, 2008 (the 2008 Agreement ), and reflects a restructuring of the original master lease arrangement so that the lessor will now be an asset trust. The 2008 Agreement was first disclosed in the Company s Form 10-Q dated September 30, 2008, as an operating lease. At the time the 2008 Agreement was executed, the Company did not deem material either the 2008 Agreement or the individual lease schedules under which each vehicle is leased. This determination reflected both the amount of aggregate vehicle cost and the relatively small obligation the Company would have if it were to terminate the leases early. However, as the aggregate cost of leased vehicles and aggregate payments owed have grown, the Company has elected to disclose the New Lease Arrangement on this Form 8-K. As of October 13, 2010, the aggregate cost of leased vehicles was $2,133,402, and the aggregate amount of lease payments due over the remaining life of the leases was $743,758.

Events of default under the Amended and Restated Agreement include, but are not limited to, failure of the Company to pay any lease payment when due, failure to maintain insurance, failure to observe certain other covenants after opportunity to cure, the seizure or confiscation of any vehicle, or the occurrence of a material adverse change in the financial condition or business of the Company. Upon the occurrence of any event of default, the lessor, without notice to the Company, has the right to demand return of any and all vehicles, immediately collect all lease payments, and may seek to recover additional damages and expenses. In the event of default, the lessor could utilize these and other remedies available under the Amended and Restated Agreement and at law.

The Amended and Restated Agreement is filed as Exhibit 10.1 and incorporated herein by reference. The Maintenance Agreement is filed as Exhibit 10.2 and incorporated herein by reference.

**Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.**
The disclosure contained in Item 1.01 above is incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits.
The following exhibits are filed as part of this report:

| Exhibit Number | Description |
|---|---|
| 10.1* | Amended and Restated Master Equity Lease by and among Enterprise Fleet Management, Inc., Enterprise FM Trust and the Company dated October 13, 2010. |
| 10.2* | Maintenance Agreement between Enterprise Fleet Management, Inc. and the Company dated October 13, 2010. |

* Filed herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

COMPUTER SOFTWARE INNOVATIONS, INC.

By: /s/ David B. Dechant
David B. Dechant
Chief Financial Officer

Dated: October 19, 2010

**EXHIBIT INDEX**

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In the case where restricted shares were granted, there were signed "Restricted Stock Agreements" between the Company and the Participants on the respective grant dates. Under these agreements, the Participants have the right to receive dividends and the right to vote the shares, subject to the following restrictions:

i. Grants to Company's CEO. The Company's CEO shall not sell, assign, exchange, transfer, pledge, hypothecate or otherwise dispose of or encumber any of the shares other than to a Company, which is wholly owned by the Company's CEO. The restrictions lapse on the earlier of (i) the time specified in the relevant Restricted Stock Agreement or (ii) the termination of the Company's CEO employment with the Company for any reason. As the shares granted to the Company's CEO do not contain any future service vesting conditions, all such shares are considered vested shares on the grant date.

ii. Grants to Other Participants. The Participants (officers, independent and executive members of the Board, Company's employees and consultants) shall not sell, assign, exchange, transfer, pledge, hypothecate or otherwise dispose of or encumber any of the shares. The restrictions lapse on the time specified in the relevant Restricted Stock Agreement conditioned upon the Participant's continued employment with the Company from the date of the agreement until the date the restrictions lapse (the "vesting period").

In the event the Participant's employment with the Company terminates for any reason before the end of the vesting period, that Participant shall forfeit all rights to all Shares that have not yet vested as of such date of termination. Dividends earned during the vesting period will not be returned to the Company, even if the unvested shares are ultimately forfeited. As these Shares granted to other than the CEO Participants contain a time-based service vesting condition, such shares are considered non-vested shares on the grant date.

The following table presents grants pursuant to the Plan's issuance from 2008 onwards:

| Grant Date | Number of Shares | Issued to | Vesting Period (according to the way stock based compensation is expensed) |
|---|---|---|---|
| January 22, 2008 | 197,562 | Officers and Employees | proportionately over a period of 4 years |
| July 1, 2008 | 50,000 | CEO | on the grant date |

| | | | |
|---|---|---|---|
| September 2, 2008 | 37,500 | Non-Executive Directors | proportionately over a period of 5 years |
| September 4, 2008 | 147,243 | CEO | In the event of change of control |
| December 21, 2009 | 30,000 | New Non-Executive Directors | proportionately over a period of 5 years |
| December 21, 2009 | 50,000 | CEO | on the grant date |
| October 29, 2010 | 24,999 | Officer | 15 equal monthly installments (1st vesting on the grant date) |
| October 29, 2010 | 49,999 | Officer | 15 equal monthly installments (1st vesting on the grant date) |
| December 2, 2010 | 50,000 | CEO | on the grant date |
| December 1, 2011 | 50,000 | CEO | on the grant date |

All share amounts have been adjusted for the 1:3 reverse stock split effected on March 20, 2008 and the 1:10 reverse stock split effected on June 24, 2011.

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A summary of the status of the Company's non-vested shares as of December 31, 2012 and movement during the year ended December 31, 2012, is presented below:

| | Non-vested Shares | Weighted average grant date fair value |
|---|---|---|
| As of January 1, 2012 | 180,244 | $47.95 |
| Vested | (25,500) | $21.86 |
| As of December 31, 2012 | 154,744 | $52.25 |

The compensation expense recognized in the years ended December 31, 2010, 2011 and 2012 was $2,024, $1,412 and $378 and is included in General and administrative expenses in the consolidated statements of comprehensive income/(loss). As of December 31, 2012, the total unrecognized compensation cost related to non-vested share awards is $51, which is expected to be recognized by September 30, 2013. The weighted average grant date fair value of shares granted, vested and forfeited for the years 2010, 2011 and 2012 was 38.5, 47.95 and 52.25 respectively.

The total fair value of shares vested during the years ended December 31, 2011 and 2012 was $458 and $51 respectively.

The Company estimates the future forfeitures of non-vested shares to be immaterial. The Company will, however, re-evaluate the reasonableness of its assumption at each reporting period.

No dividends were paid in the years ended December 31, 2010, 2011 and 2012.

13. Earnings (loss) Per Common Share:

All shares issued (including non-vested shares issued under the Plan) are the Company's common stock and have equal rights to vote and participate in dividends and in undistributed earnings. Non-vested shares do not have a contractual obligation to share in the losses. Dividends declared during the period for non-vested common stock as well as undistributed earnings allocated to non-vested stock are deducted from net income / (loss) attributable to common shareholders for the purpose of the computation of basic earnings per share in accordance with two-class method as required by relevant guidance. The denominator of the basic earnings per common share excludes any non vested shares as such are not considered outstanding until the time-based vesting restriction has elapsed.

For purposes of calculating diluted earnings per share the denominator of the diluted earnings per share calculation includes the incremental shares assumed issued under the treasury stock method weighted for the period the non-vested shares were outstanding, with the exception of the 147,244 shares, granted to the Company's CEO, which will vest in the event of change of control. Consequently, those shares are excluded from the remaining non-vested shares.

The components of the calculation of basic and diluted earnings per share for the years ended December 31, 2010, 2011 and 2012 are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| Net (loss) income | $2,513 | $(189,112 ) | $(63,984 ) |
| Less: Undistributed earnings allocated to non-vested shares | $(177 ) | $- | $- |
| Net (loss) income available to common shareholders | $2,336 | $(189,112 ) | $(63,984 ) |
| Weighted average common shares outstanding, basic | 3,075,278 | 6,304,679 | 16,989,585 |
| Weighted average common shares outstanding, diluted | 3,077,741 | 6,304,679 | 16,989,585 |
| (Loss) income per common share, basic and diluted | $0.82 | $(30.00 ) | $(3.77 ) |

For the years ended December 31 2010, 2011 and 2012, 261,511, 180,244 and 154,744 shares respectively, which constitute the number of non-vested shares as at the end of each year, were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the periods presented.

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14. Voyage and Vessel Operating Expenses:

The amounts in the accompanying consolidated statements of comprehensive income/(loss) are as follows (expressed in thousands of U.S. Dollars):

| Voyage Expenses | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| Port charges | (59) | 1,141 | 24 |
| Bunkers | 700 | 4,684 | 177 |
| Commissions | 1,827 | 1,918 | 822 |
| Total | 2,468 | 7,743 | 1,023 |

| Vessel Operating Expenses | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| Crew wages and related costs | 6,624 | 5,415 | 361 |
| Insurance | 2,087 | 1,165 | 83 |
| Repairs and maintenance | 1,219 | 1,356 | 179 |
| Spares and consumable stores | 2,862 | 2,369 | 184 |
| Taxes (Note 16) | 61 | 63 | 7 |
| Total | 12,853 | 10,368 | 814 |

15. Interest and Finance Costs:

The amounts in the accompanying consolidated statements of comprehensive income/(loss) are analyzed as follows (expressed in thousands of U.S. Dollars):

| Interest and Finance Costs | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| Interest on debt (Note 9) | 11,241 | 10,068 | 7,240 |
| Bank charges | 124 | 16 | 297 |
| Amortization and write-off of financing fees | 1,947 | 2,234 | 1,437 |
| Amortization of debt discount | 1,464 | 3,965 | 371 |
| Total | 14,776 | 16,283 | 9,345 |

16. Income Taxes:

Marshall Islands, Cyprus and Liberia do not impose a tax on international shipping income. Under the laws of Marshall Islands, Cyprus and Liberia, the countries of the companies' incorporation and vessels' registration, the companies are subject to registration and tonnage taxes, which have been included in vessels' operating expenses in the accompanying consolidated statements of comprehensive income/(loss).

Pursuant to the United States Internal Revenue Code of 1986, as amended (the "Code"), U.S. source income from the international operations of ships is generally exempt from U.S. tax if the Company operating the ships meets both of

the following requirements, (a) the Company is organized in a foreign country that grants an equivalent exception to corporations organized in the United States and (b) either (i) more than 50% of the value of the Company's stock is owned, directly or indirectly, by individuals who are "residents" of the Company's country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States (50% Ownership Test) or (ii) the Company's stock is "primarily and regularly traded on an established securities market" in its country of organization, in another country that grants an "equivalent exemption" to United States corporations, or in the United States (Publicly-Traded Test).

Under the regulations, a Company's stock will be considered to be "regularly traded" on an established securities market if (i) one or more classes of its stock representing more than 50 percent of its outstanding shares, by voting power and value, is listed on the market and is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year; and (ii) the aggregate number of shares of sstock traded during the taxable year is at least 10% of the average number of shares of the stock outstanding during the taxable year.

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The Marshall Islands, Cyprus and Liberia, the jurisdictions where the Company and its ship-owning subsidiaries are incorporated, grant an "equivalent exemption" to United States corporations. Therefore, the Company is exempt from United States federal income taxation with respect to U.S.-source shipping income if either the 50% Ownership Test or the Publicly-Traded Test is met. The Company believes that for periods prior to its initial public offering in July 2004, it satisfied the 50% Ownership Test. The Company also believes that for periods subsequent to its initial public offering, it satisfies the Publicly-Traded Test on the basis that more than 50% of the value of its stock is primarily and regularly traded on the Nasdaq National Market and, therefore, the Company and its subsidiaries are entitled to exemption from U.S. federal income tax, in respect of their U.S. source shipping income.

17. Financial Instruments:

The principal financial assets of the Company consist of cash on hand and at banks and accounts receivable due from charterers. The principal financial liabilities of the Company consist of loans, accounts payable due to suppliers, interest rate swap agreements and an interest rate derivative product.

a) Interest rate risk: The Company is subject to market risks relating to changes in interest rates because it has floating rate debt outstanding under its loan agreements on which it pays interest based on LIBOR, or cost of funds for certain banks, plus a margin. In order to manage part or whole of its exposure to changes in interest rates due to this floating rate indebtedness, the Company might enter into interest rate swap agreements.

   The Company places its temporary cash investments, consisting mostly of deposits, with high credit qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions with which it places its temporary cash investments. The Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivable.

b) Concentration of Credit risk: Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and trade accounts receivable.

c) Fair value: The carrying values of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The Company considers its creditworthiness when determining the fair value of the credit facilities. The carrying value approximates the fair market value for the floating rate loans. The fair value of the interest rate swaps was determined using a discounted cash flow method taking into account current and future interest rates and the creditworthiness of both the financial instrument counterparty and the Company.

The estimated fair value of the Company's derivatives, seen below, approximates their carrying values.

| Counterparty | SWAP Number (Nr) | Notional Amount | Period | Effective Date | Interest Rate Payable | Fair Value - Liability |
|---|---|---|---|---|---|---|

| | | December 31, 2012 | | | | | December 31, 2011** | December 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| EGNATIA | 1 | $10,000 | 7 years | July 3, 2006 | 4.76 | % | $(684) | $(222) |
| HSH NORDBANK | 2 | $7,332 | 5 years | March 27, 2008 | 4.60 | % | $(375) | $(73) |
| EMPORIKI | 3 | $20,000 | 7 years | March 30, 2008 | 10.85 | % | $(3,863) | $(2,785) |
| HSH NORDBANK | 4 | $10,599 | 7 years | July 15, 2008 | 5.55 | % | $(1,951) | $(1,591) |
| HSH NORDBANK | 5 | $11,346 | 4 years | June 28, 2010 | 4.73 | % | $(1,502) | $(1,140) |
| | | $59,277 | | | | | $(8,375) | $(5,811) |

** Our interest rate swap arrangements as of December 31, 2011 were valued at $8,467. The table above serves to compare the swap agreements that the Company had on December 31, 2012 with their equivalent value on December 31, 2011. The difference between the value of the swap agreements as depicted in the above table and last year's the reported number is $92 and is due to the fact that one of our swaps matured during 2012.

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The Company enters into interest rate swap transactions to manage interest costs and the risk associated with changing interest rates with respect to its variable interest rate loans and credit facilities. These interest rate swap transactions fix the interest rates based on predetermined ranges in current LIBOR rates. As of December 31, 2012, the Company's outstanding interest rate swaps had a combined notional amount of $59,277.

The Company follows the accounting guidance for Fair Value Measurements and Disclosures. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value should be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities;

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data;

Level 3: Unobservable inputs that are not corroborated by market data.

The Company pays a fixed rate and receives a variable rate for its interest rate swaps. The variable rate is based on the LIBOR swap rates. LIBOR swap rates are observable at commonly quoted intervals for the full terms of the swaps and therefore are considered Level 2 items. The fair values of those derivatives determined through Level 2 of the fair value hierarchy are derived principally from or corroborated by observable market data. Inputs include quoted prices for similar assets, liabilities (risk adjusted) and market-corroborated inputs, such as market comparables, interest rates, yield curves and other items that allow value to be determined.

As of December 31, 2012, no fair value measurements for assets or liabilities under Level 1 or Level 3 were recognized in the Company's consolidated financial statements.

The following tables summarize the valuation of the Company's assets measured at fair value on a non-recurring basis as of December, 31, 2011 and 2012 respectively:

Items Measured at Fair Value on a Nonrecurring Basis

| | | Fair Value Measurements | | | |
|---|---|---|---|---|---|
| Non – Recurring Measurements: | December 31, 2011 | Quoted prices in active markets for identical assets Level 1 | Significant other observable inputs Level 2 | Unobservable Inputs Level 3 | Gains/ (Losses) |
| Long-lived assets held for sale | $10,414 | | $10,414 | | $(45,110) |

Items Measured at Fair Value on a Nonrecurring Basis

Fair Value Measurements

Quoted prices

| Non – Recurring Measurements: | December 31, 2012 | in active markets for identical assets Level 1 | Significant other observable inputs Level 2 | Unobservable Inputs Level 3 | Gains/ (Losses) |
|---|---|---|---|---|---|
| Long-lived assets held for sale | $25,200 | | $25,200 | | $(16,978 ) |
| Long-lived assets held and used | $164,792 | | $164,792 | | $( 46,592 ) |
| Long-lived assets previously held for sale and currently held and used | $12,500 | | $12,500 | | $2,086 |

In accordance with the provisions of relevant guidance, a long-lived asset held for sale with a carrying amount of $42,178 was written down to its fair value of $25,200, resulting in an impairment charge of $16,978, which is included in the accompanying consolidated statement of comprehensive income/ (loss)for December 31, 2012 (see note 8). The fair value of the impaired vessel was determined based on a market approach, which consisted of quotations from well respected brokers regarding vessels with similar characteristics as compared to our vessels. As a result, the Company has classified long-lived asset held for sale as Level 2.

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In accordance with the provisions of relevant guidance, long-lived assets held and used with a carrying amount of $211,384 were written down to their fair value of $164,792, resulting in an impairment charge of $46,592, which was also included in the accompanying consolidated statement of comprehensive income/ (loss)for December 31, 2012 (see note 8).The fair value of the impaired vessels was determined by a combination of market approach, which consisted of quotations from well respected brokers regarding vessels with similar characteristics as compared to our vessels, that determined the charter-free vessel value (level 2) and a charter valuation based on the Company's projections employing assumptions used by market participants (level 3). The Company has split its approach in two sections: (i) Charter-free value of the vessel. To determine the charter-free value consists of quotations from well respected brokers regarding vessels with similar characteristics with ours. This market approach is deemed more objective mainly due to the multitude of transactions of comparable assets in the active and liquid shipping S & P market. Valuation inputs from the market approach are considered Level 2 in the fair value hierarchy, since the Company uses a valuation derived from prices in observed transactions. (ii) Value of the charter. The valuation of the attached timecharter on three of our impaired tankers entails the discounting of the differential between the current long period timecharter for a similar vessel and the timecharter already attached to the vessel for the duration of the latter. The source of the current long period timecharter rates are third party independent shipbrokers. Apart from the long period timecharter rates, budgeted operating expenses and the discount rate that the Company uses there are no other assumptions used in the discounting model. The discount rate used by the Company takes into account the cost of equity of the company, the country risk of the charterer's country and the default rate of the charterer. The operating expenses used are management estimates based on the management's experience in operating this type of vessel. The charter valuation, since it entails the use of judgments and assumptions, is individually considered a level 3 approach. However according to ASC 820-10-35-37 (Applying ASU 2011-04) if the level 3 part of the valuation is deemed insignificant (18.7% of the total value is derived from level 3 inputs) from the Company the prevailing level would be level 2, hence the Company characterized the valuation approach as a Level 2 in its entirety.

In accordance with the provisions ASC 360-10-35-44, long-lived assets previously classified as held for sale that are currently classified as held and used with a carrying amount of $10,414 were valued at $12,500, resulting in a write-up of $2,086, which was included in the accompanying consolidated statement of comprehensive income/ (loss)for December 31, 2012 (see note 8). According to the provisions of abovementioned guidance the Company measured (i) the carrying amount of the vessel before it was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the vessel been continuously classified as held and used and (ii) the fair value of the vessel on December 31, 2012, which was the date that the Company decided not to sell the asset. The Company determined that the lower value of the two above measurements was the fair value of the vessel on December 31, 2012 and used that as fair value. The fair value of the vessel on December 31, 2012 was determined based on a market approach, which consisted of quotations from well respected brokers regarding vessels with similar characteristics as compared to our vessels. As a result, the Company has classified long-lived asset held and used as Level 2.

The following tables summarize the valuation of our financial instruments as of December 31, 2011 and 2012 respectively:

| As of December 31, 2011 | Fair Value Measurement at Reporting Date Using Quoted Prices in |
|---|---|

| | Total | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Interest rate swaps | $8, 467 | - | $8,467 | - |

| As of December 31, 2012 | | Fair Value Measurement at Reporting Date Using Quoted Prices in | | |
|---|---|---|---|---|
| | Total | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| Interest rate swaps | $5,812 | - | $5,812 | - |

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The Company's interest rate swaps did not qualify for hedge accounting. The Company marks to market the fair market value of the interest rate swaps at the end of every period and reflects the resulting unrealized gain or loss during the period in "Gain / (loss) on financial instruments" in its consolidated statement of comprehensive income/(loss)as well as presents the fair value at the end of each period in the balance sheet. Information on the location and amounts of derivative fair values in the consolidated balance sheets and derivative losses in the consolidated statements of comprehensive income/(loss) are presented below:

| | Liability Derivatives | | | |
|---|---|---|---|---|
| | December 31, 2011 | | December 31, 2012 | |
| Derivatives not designated as hedging instruments | | | | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate swaps | Current liabilities – Current portion of financial instruments | $8,467 | Current liabilities – Current portion of financial instruments | $5,811 |
| Total Derivatives not designated as hedging instruments | | $8,467 | | $5,811 |

| Derivative Instruments not designated as hedging instruments | Location of (Loss) or Gain recognized in Income on Derivative | Amount of (Loss) or Gain Recognized in Statement of Comprehensive Income/(Loss) December 31, 2010 | December 31, 2011 | December 31, 2012 |
|---|---|---|---|---|
| Interest rate swaps | (Loss) / gain on financial instruments | $(865) | $(2,835) | $(2,656) |
| Total (Loss) / Gain on Derivatives | | $(865) | $(2,835) | $(2,656) |

The Company has treated the Sovereign transaction as a freestanding financial instrument settled in the Company's common stock according to guidance under ASC 480-10 and as such the obligation is recognized in the balance sheet at fair value with changes in its fair value recorded in earnings. The Company didn't recognize an obligation deriving from the Sovereign financial instrument as of December 31, 2011 since the Company is not obliged in any way to issue shares further shares or draw down the remaining $3 million under the Sovereign Transaction and has made no commitment to Sovereign to do so. Hence the instrument was not valued and hence there were no changes in its fair value to be recorded in earnings. For the same reason, no changes in the Sovereign financial instrument's fair value were recorded in earnings during the year ended December 31, 2012. Finally the Company didn't recognize an obligation deriving from the Sovereign financial instrument as of December 31, 2012 since the Sovereign financial instrument matured in August 25, 2012.

18. Equity line discount:

As mentioned above the Company effected two transactions under the Sovereign contract (see note 5 "Transactions with Related Parties") in September 1, 2011 and October 19, 2011. The difference between the quoted market price at those dates and the issuance price amounting to $23,406 is recognized in equity under line item "Additional paid-in capital". Changes in the fair value of the obligation, if any, between the drawdown date and share issuance date are recognized in the P&L, but since at both transaction dates the issuance of shares was done on the same day as the drawdown, there is no fair value change in the obligation, hence no effect on the consolidated statement of comprehensive income/ (loss)of the Company.

19. Other Long Term Receivable

On September 5, 2011 the Company terminated the charter of M/V Cyclades in order to sell the vessel. Since the daily charter rate that the Company was receiving was higher then what the market was paying at the time, the charterer realized a benefit from this termination and hence agreed to pay the Company a termination fee. This termination fee amounted to $4.6 per day and was agreed to be collected over the period of the terminated charter party (i.e. up to February 2, 2014). The balance of this receivable as of December 31, 2011 amounted to $3,074, $1,841 presented under "Other Long-term Receivables" and $1,233 under "Trade accounts receivable". On August 15, 2012 the Company sold this receivable, which amounted then to $2,165 to the company Laurasia, in return for a $750 reduction of the principal of one of the Laurasia bridge loan facilities (see note 9). The loss on the sale of the receivable was recorded under "Other, Net" in the Company's consolidated statement of comprehensive income / (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011 AND 2012
AND FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(Expressed in thousands of United States Dollars – except share, per share data and rate per day, unless otherwise stated)

20. Other Non Current Liabilities

On October 1, 2010, the Company entered into a bareboat charter agreement to lease vessel M/T Delos until September 30, 2015 for a variable rate per year. On October 15, 2011 the Company terminated the bareboat charter agreement resulting in a termination expense of $5,750 included in "Lease Termination Expense" in the accompanying consolidated statements of comprehensive income/(loss) for the year ended December 31, 2011. As of December 31, 2012, the outstanding amount of the termination fee was $5,306.

On January 1, 2013 the Company entered into an agreement with the owner of M/T Delos by which the termination fee outstanding as of December 31, 2012 is divided into two tranches, "Tranche A" ($4,500) that will bear interest of 3% plus Libor and "Tranche B" ($806) that will not bear interest. This agreement provides for the repayment of Tranche A and Tranche B according to the following schedule.

| Year ending December 31, | Tranche A of the Termination Fee | Tranche B of the Termination Fee |
|---|---|---|
| 2013 | 600 | |
| 2014 | 800 | |
| 2015 | 800 | |
| 2016 | 800 | |
| 2017 | 1,500 | 806 |
| | 4,500 | 806 |

Finally, according to this agreement the Company will pay monthly Interest payments. As of December 31, 2012 the non-current part of the termination fee is $4,706. This agreement and the negotiations preceding it constitute evidence about conditions that existed at the balance sheet date and hence the Company considers it a recognized subsequent event, since the said agreement is the culmination of conditions that existed over a relatively long period of time.

21. Continued Operations

In 2007 the Company made an investment in the drybulk sector, and from 2007 to 2010, the Company owned a total of five dry bulk vessels ("Drybulk Business") (three Panamax, one Supramax and one Handymax) under time charters, three of which were scheduled to expire during 2011. The Company had determined that in 2010 it operated under two reportable segments as the chief operating decision maker reviewed drybulk operations separate from that of the tankers and therefore presented operating results accordingly.

Following the sale of four drybulk vessels during 2011 and management's intention to sell M/V Evian, the Company's last dry bulk vessel, the Company determined that as of December 31, 2011,the Drybulk Business should be reflected as discontinued operations.(Note 8).

During 2012, the Company actively marketed M/V Evian but did not receive any suitable offers in order to sell the vessel. In addition, during May 2012 the Company was offered and subsequently signed a bareboat timecharter for the vessel at a rate higher than the prevailing market rates at that time. Thus on this basis the Company decided to change the plan of sale of the M/V Evian and assessed that it will continue to generate revenue (and incur associated costs) from its continuing operations. As a result, the M/V Evian no longer met the criteria to be classified as held for sale and reclassified the vessel as held for use and measured the vessel at its fair value, resulting in a write-up of $2,086. As a result, the Drybulk business was reclassified to continuing operations for all periods presented. In evaluating the ongoing business operations, the Company determined that since tankers and dry bulk carriers have similar economic characteristics and that there is only one dry bulk vessel left, and as the chief operating decision maker reviews operating results solely by revenue per day and operating results of the fleet, the Company concluded that in 2012 they operated under one segment. Therefore, the presentation of the operating results for the year ended December 31, 2011 was modified accordingly.

22. Subsequent Events

On March 27, 2013 the Company entered into an agreement with an unrelated third party to sell the M/T UACC Sila, which as of December 31, 2012 the Company has classified as held for sale in the accompanying consolidated balance sheets (see Note 4). Since the vessel is classified as held for sale the Company estimates that no significant loss or gain will result from its sale. The vessel was delivered to its new owners on April 30, 2013 and its respective debt was fully repaid.

On April 15, 2013 the Company announced it has received a notice from the bareboat charterer of the M/T "MISS MARILENA" that it will unilaterally reduce the charterhire rate to $10,000 per day starting from April 2013 month and for one year. Pursuant to the charter agreement, the charterer should pay the amount of $14,400 per day. The Company is examining its options for recovery of the amounts contractually owed to it and intends to enforce its right to payment under the charter.

Schedule I- Condensed Financial Information of Top Ships Inc. (Parent Company Only)
Balance Sheets
December 31, 2011 and 2012
(Expressed in thousands of U.S. Dollars – except for share and per share data)

| | December 31, | |
|---|---|---|
| | 2011 | 2012 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | - | - |
| Due from subsidiaries | 266,859 | 264,697 |
| Other current assets | 393 | 141 |
| Total current assets | 267,252 | 264,838 |
| NON CURRENT ASSETS | | |
| Investments in subsidiaries | 105,149 | 52,107 |
| Restricted cash | 952 | 164 |
| Other non-current assets | 193 | 52 |
| Total non-current assets | 106,294 | 52,323 |
| Total assets | 373,546 | 317,161 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current portion of debt | 6,113 | 5,664 |
| Due to subsidiaries | 287,901 | 293,133 |
| Current portion of financial instruments | 684 | 222 |
| Due to related parties-central | 727 | 1,136 |
| Other current liabilities | 1,437 | 3,926 |
| Total current liabilities | 296,862 | 304,081 |
| | | |
| NON CURRENT LIABILITIES | | |
| Other non-current liabilities | - | - |
| Total non-current liabilities | - | - |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, $0.01 par value; 20,000,000 shares authorized; none issued | - | - |
| Common stock $0.01 par value; 1,000,000,000 shares authorized | | |
| 17,147,534 shares issued and outstanding at December 31, 2011 and 2012 | 171 | 172 |
| Additional paid-in capital | 292,583 | 292,962 |
| Accumulated other comprehensive income | 37 | 37 |
| Accumulated deficit | (216,107 ) | (280,091 ) |
| Total stockholders' equity | 76,684 | 13,080 |
| Total liabilities and stockholders' equity | 373,546 | 317,161 |

Schedule I- Condensed Financial Information of Top Ships Inc. (Parent Company Only)
Statements of Operations
For the years ended December 31, 2010, 2011 and 2012
(Expressed in thousands of U.S. Dollars – except for share and per share data)

| | December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| EXPENSES | | | |
| General and administrative expenses | 11,591 | 13,153 | 5,635 |
| Foreign currency gains, net | (49) | 37 | 59 |
| Operating loss | (11,542) | (13,190) | (5,694) |
| OTHER (EXPENSES) / INCOME | | | |
| Interest and finance costs | (3,301) | (5,732) | (2,059) |
| Loss / (gain) on financial instruments | (1,058) | (300) | 24 |
| Interest income | 1 | 1 | 0 |
| Other, net | - | (37) | 688 |
| Total Other (expenses), net | (4,358) | (6,068) | (1,347) |
| Equity in earnings / (loss) of subsidiaries | 18,413 | (169,854) | (56,943) |
| Net Income / (loss) | 2,513 | (189,112) | (63,984) |
| | | | |
| Earnings / (loss) per common share, basic and diluted | 0.82 | (30.00) | (3.77) |
| | | | |
| Weighted average common shares outstanding, basic | 3,075,278 | 6,304,679 | 16,989,585 |
| | | | |
| Weighted average common shares outstanding, diluted | 3,077,741 | 6,304,679 | 16,989,585 |

Schedule I- Condensed Financial Information of Top Ships Inc. (Parent Company Only)
Statements of Cash Flows
For the years ended December 31, 2010, 2011 and 2012
(Expressed in thousands of U.S. Dollars)

| | December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| Net cash (used in) / provided by Operating Activities | 3,921 | (6,150) | (844) |
| | | | |
| Cash flows from Investing Activities | | | |
| Return of investment from subsidiaries | 19,473 | 24,142 | - |
| Decrease in Restricted cash | 52 | (531) | 788 |
| Acquisition of fixed assets | (177) | (37) | |
| Net proceeds from sale of fixed assets | | | 56 |
| Net cash provided by / (used in) Investing Activities | 19,348 | 23,574 | 844 |
| Cash flows from Financing Activities | | | |
| Proceeds from debt | - | 2,782 | 500 |
| Proceeds from convertible debt | 4,000 | 2,000 | - |
| Principal payments of debt | (26,747) | (28,915) | (500) |
| Issuance of common stock, net of issuance costs | 27 | 6,834 | - |
| Payment of financing costs | (708) | (419) | - |
| Net cash (used in) Financing Activities | (23,428) | (17,718) | 0 |
| Effect of exchange rate changes on cash | 159 | 294 | - |
| Net increase / (decrease) in cash and cash equivalents | (159) | (294) | 0 |
| Cash and cash equivalents at beginning of year | 0 | 0 | 0 |
| Cash and cash equivalents at end of year | 0 | 0 | 0 |

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Schedule I- Condensed Financial Information of Top Ships Inc. (Parent Company Only)
(Figures in thousands of U.S. Dollars)

In the condensed financial information of the Parent Company, the Parent Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries less equity in undistributed loss of subsidiaries, distributions from subsidiaries as return on investment and return of investment.

The Parent Company's subsidiaries made the following distributions to the Parent Company during the years ended December 31, 2010, 2011 and 2012:

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Return on Investment | 5,992 | 3,070 | 475 |
| Return of Investment | 19,473 | 24,142 | - |
| Total cash from subsidiaries | 25,465 | 27,212 | 475 |

The Parent Company is a borrower under the Laurasia, Central Mare and Shipping Financial Services facilities and guarantor under the remaining loans outstanding at December 31, 2012. Refer to Note 9 to the consolidated financial statements.

The principal payments required to be made after December 31, 2012 for these are as follows:

| | |
|---|---|
| Year ending December 31, 2012 | 6,087 |
| Less financing fees | (423 ) |
| | 5,664 |

The vessel-owning subsidiary companies with outstanding loans had restricted net assets amounting to $44,438 and $15,806 as of December 31, 2011 and 2012, respectively.

The condensed financial information of the Parent Company should be read in conjunction with the Company's consolidated financial statements.