NAVISITE INC
Form 10-Q
December 10, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 000-27597

NAVISITE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2137343**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 Minuteman Road Andover, Massachusetts	**01810**
(Address of principal executive offices)	(Zip Code)

(978) 682-8300

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

As of December 3, 2009, there were 37,303,520 shares outstanding of the registrant s common stock, par value $.01 per share.

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FOR THE QUARTER ENDED OCTOBER 31, 2009

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

NAVISITE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except par value)

	October 31, 2009	July 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,178	$ 10,534
Accounts receivable, less allowance for doubtful accounts of $1,944 and $1,820 at October 31, 2009, and July 31, 2009, respectively	14,850	16,417
Unbilled accounts receivable	1,335	1,361
Prepaid expenses and other current assets	7,703	6,336
Total current assets	28,066	34,648
Property and equipment, net	33,212	32,048
Intangible assets	20,523	22,093
Goodwill	66,566	66,566
Other assets	6,631	6,769
Restricted cash	1,558	1,556
Total assets	$ 156,556	$ 163,680
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Notes payable, current portion	$ 4,202	$ 10,603
Capital-lease obligations, current portion	3,325	3,040
Accounts payable	3,940	5,375
Accrued expenses and other current liabilities	12,027	11,659
Deferred revenue, deferred other income and customer deposits	6,304	4,947
Total current liabilities	29,798	35,624
Capital-lease obligations, less current portion	11,078	10,973
Accrued lease-abandonment costs, less current portion	74	96
Deferred tax liability	7,983	7,492
Other long-term liabilities	6,394	7,565
Note payable, less current portion	106,469	106,154
Total liabilities	161,796	167,904
Series A Convertible Preferred Stock, $0.01 par value; Authorized 5,000 shares; Issued and outstanding: 3,774 at October 31, 2009, and 3,664 at July 31, 2009	31,778	30,879

Commitments and contingencies (Note 11)		
Stockholders deficit:		
Common stock, $0.01 par value; Authorized 395,000 shares; Issued and outstanding: 36,174 at October 31, 2009, and 35,911 at July 31, 2009	362	359
Accumulated other comprehensive loss	(953)	(1,024)
Additional paid-in capital	485,531	485,136
Accumulated deficit	(521,958)	(519,574)
Total stockholders deficit	(37,018)	(35,103)
Total liabilities and stockholders deficit	$ 156,556	$ 163,680

See accompanying notes to condensed consolidated financial statements.

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NAVISITE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per-share amounts)

	Three Months Ended	
	October 31, 2009	October 31, 2008
Revenue, net	$36,714	$40,082
Revenue, related parties	94	83
Total revenue, net	36,808	40,165
Cost of revenue	18,682	21,802
Depreciation and amortization	5,554	5,732
Restructuring charge		214
Cost of revenue	24,236	27,748
Gross profit	12,572	12,417
Operating expenses:		
Selling and marketing	4,990	5,661
General and administrative	5,692	5,963
Restructuring charge		262
Total operating expenses	10,682	11,886
Income from operations	1,890	531
Other income (expense):		
Interest income	7	4
Interest expense	(3,840)	(3,044)
Other income (expense), net	98	461
Loss from operations before income taxes	(1,845)	(2,048)
Income taxes	(539)	(499)
Net loss	(2,384)	(2,547)
Accretion of preferred-stock dividends	(899)	(802)
Net loss attributable to common stockholders	$ (3,283)	$ (3,349)

Basic and diluted net loss per common share attributable to common stockholders	$ (0.09)	$ (0.09)
Basic and diluted weighted average number of common shares outstanding	36,004	35,344
Stock-based compensation expense:		
Cost of revenue	$ 294	$ 379
Selling and marketing	175	182
General and administrative	402	408
Restructuring		51
Total stock-based compensation expense	$ 871	$ 1,020

See accompanying notes to condensed consolidated financial statements.

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NAVISITE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended October 31, 2009	Three Months Ended October 31, 2008
Cash flows from operating activities:		
Net loss	$ (2,384)	$(2,547)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,740	5,905
Mark to market for interest-rate cap	2	4
Stock-based compensation	871	1,020
Provision for bad debts	121	168
Deferred income-tax expense	491	499
Changes in operating assets and liabilities:		
Accounts receivable	1,478	(2,401)
Unbilled accounts receivable	26	(160)
Prepaid expenses and other current assets, net	(1,652)	3,864
Long-term assets	143	(106)
Accounts payable	(1,397)	1,421
Accrued expenses, deferred revenue and customer deposits	2,336	2,368
Long-term liabilities	(1,170)	(486)
Net cash provided by operating activities	4,605	9,549
Cash flows from investing activities:		
Purchase of property and equipment	(4,018)	(3,736)
Releases of (transfers to) restricted cash	267	(1)
Net cash used for investing activities	(3,751)	(3,737)
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock-purchase plan	427	126
Proceeds from notes payable, net	500	905
Repayment of notes payable	(7,217)	(2,488)
Debt-issuance costs		(1,184)
Payments on capital-lease obligations	(924)	(1,213)
Net cash used for financing activities	(7,214)	(3,854)
Effect of exchange-rate changes on cash and cash equivalents	4	(199)
Net increase (decrease) in cash and cash equivalents	(6,356)	1,759
Cash and cash equivalents, beginning of period	10,534	3,261
Cash and cash equivalents, end of period	$ 4,178	$ 5,020

Supplemental disclosure of cash-flow information:		
Cash paid for interest	$ 3,326	$ 2,902
Supplemental disclosure of non-cash financing transactions:		
Equipment and leasehold improvements acquired under capital leases	$ 1,462	$ 1,357
Accretion of preferred stock	$ 899	$ 802

See accompanying notes to condensed consolidated financial statements.

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NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Description of Business

NaviSite, Inc. (**NaviSite**, the **Company**, **we**, **us** or **our**), provides IT hosting, outsourcing and professional services. Leveraging our set of technologies and subject-matter expertise, we deliver cost-effective, flexible solutions that provide responsive and predictable levels of service for our customers businesses. Over 1,500 companies across a variety of industries rely on NaviSite to build, implement and manage their mission-critical systems and applications. NaviSite is a trusted advisor committed to ensuring the long-term success of our customers business applications and technology strategies. At October 31, 2009, NaviSite had 15 state-of-the-art data centers in the United States and United Kingdom and a network operations center (**NOC**) in India. Substantially all revenue is generated from customers in the United States.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts and operations of NaviSite, Inc., and our wholly-owned subsidiaries. These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the **SEC**) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles (**U.S. GAAP**) for complete financial statements. You should therefore read them in conjunction with the audited consolidated financial statements included in our annual report on Form 10-K filed on October 27, 2009. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of our financial position, results of operations, comprehensive income and cash flows at the dates and for the periods indicated. The results of operations for the three months ended October 31, 2009, are not necessarily indicative of the results expected for the remainder of the fiscal year ending July 31, 2010.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. Significant estimates that we made include the useful lives of fixed assets and intangible assets, the recoverability of long-lived assets, the collectability of receivables, the determination and valuation of goodwill and acquired intangible assets, the fair value of preferred stock, the determination of revenue and related revenue reserves, the determination of stock-based compensation and the determination of the deferred-tax-valuation allowance.

(c) Revenue Recognition

Revenue, net, consists of monthly fees for application-management services, managed-hosting solutions, co-location and professional services. Reimbursable expenses charged to clients are included in revenue, net, and cost of revenue. Application management, managed-hosting solutions and co-location services are billed and recognized as revenue over the term of the contract, generally one to five years. Installation and up-front fees associated with application management, managed-hosting solutions and co-location services are billed at the time that we provide the installation service and recognized as revenue over the term of the related contract. The direct and incremental costs associated with installation and setup activities are capitalized and expensed over the greater of the term of the related contract or the expected customer life. Revenue from payments received in advance of providing services is deferred until the period in which such services are delivered.

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Revenue from professional services is recognized as services are delivered, for time- and materials-type contracts, and using the percentage-of-completion method, for fixed-price contracts. For fixed-price contracts, progress towards completion is measured by comparing the total hours incurred on the project to date to the total estimated hours required upon completion of the project. When current contract estimates indicate that a loss is probable, a provision is made for the total anticipated loss in the current period. Contract losses are determined to be the amount by which the estimated service-delivery costs of the contract exceed the estimated revenue that will be generated by the contract. Unbilled accounts receivable represent revenue for services performed that have not yet been billed as of the balance-sheet date. Billings in excess of revenue recognized are recorded as deferred revenue until the applicable revenue-recognition criteria are met.

Effective August 1, 2009, we adopted Accounting Standards Update (**ASU**) No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, which amends FASB Accounting Standards Codification (**ASC**) Topic 605, *Revenue Recognition*. ASU 2009-13 amends FASB ASC Topic 605 to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes (1) vendor-specific objective evidence, if available, (2) third-party evidence, if vendor-specific objective evidence is not available, and (3) estimated selling price, if neither vendor-specific nor third-party evidence is available. Additionally, ASU 2009-13 expands the disclosure requirements related to a vendor s multiple-deliverable revenue arrangements. This guidance is effective for us on August 1, 2010; however, we have elected to adopt early, as permitted by the guidance. As such, we have prospectively applied the provisions of ASU 2009-13 to all revenue arrangements entered into or materially modified after August 1, 2009.

In accordance with ASU 2009-13, we allocate arrangement consideration to each deliverable in an arrangement based on its relative selling price. We determine selling price using vendor-specific objective evidence (**VSOE**), if it exists; otherwise, we use third-party evidence (**TPE**). If neither VSOE nor TPE of selling price exists for a unit of accounting, we use estimated selling price (**ESP**).

VSOE is generally limited to the price charged when the same or similar product is sold separately. If a product or service is seldom sold separately, it is unlikely that we can determine VSOE for the product or service. We define VSOE as a median price of recent standalone transactions that are priced within a narrow range, as defined by us.

TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. It may be difficult for us to obtain sufficient information on competitor pricing to substantiate TPE and therefore we may not always be able to use TPE.

If we are unable to establish selling price using VSOE or TPE, and the order was received or materially modified after our ASU 2009-13 implementation date of August 1, 2009, we will use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact if the product or service were sold by us on a standalone basis. Our determination of ESP involves a weighting of several factors based on the specific facts and circumstances of the arrangement. Specifically, we consider the cost to produce or provide the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts or services, our ongoing pricing strategy and policies, the value of any enhancements that have been built into the deliverable and the characteristics of the varying markets in which the deliverable is sold.

We plan to analyze the selling prices used in our allocation of arrangement consideration at a minimum on an annual basis. Selling prices will be analyzed on a more frequent basis if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

Each deliverable within a multiple-deliverable revenue arrangement is accounted for as a separate unit of accounting under the guidance of ASU 2009-13 if both of the following criteria are met: (1) the delivered item or items have value to the customer on a standalone basis and (2) for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. We consider a deliverable to have standalone value if we sell this item separately or if the item is sold by another vendor or could be resold by the customer. Further, our revenue arrangements generally do not include a general right of return relative to delivered products.

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Deliverables not meeting the criteria for being a separate unit of accounting are combined with a deliverable that does meet that criterion. The appropriate allocation of arrangement consideration and recognition of revenue is then determined for the combined unit of accounting.

During the current quarter the adoption of ASU 2009-13 had no impact.

(d) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during the reporting period from transactions and other events and circumstances from non-owner sources. We record the components of comprehensive income (loss), primarily foreign-currency-translation adjustments, in our condensed consolidated balance sheets as a component of stockholders deficit, Accumulated other comprehensive loss. For the three months ended October 31, 2009 and 2008, comprehensive loss totaled approximately $2.3 million and $3.6 million, respectively.

(e) Basic and Diluted Net Loss per Common Share

Basic net loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed using the weighted average number of common and dilutive common-equivalent shares outstanding during the period. We utilize the treasury-stock method for options, warrants and non-vested shares and the if-converted method for convertible preferred stock and notes, unless such amounts are anti-dilutive.

The following table sets forth common-stock equivalents that are not included in the calculation of diluted net loss per share available to common stockholders because to do so would be anti-dilutive for the periods indicated.

	Three Months Ended October 31	
	2009	**2008**
Common stock options	575,126	623,136
Common stock warrants	1,194,228	1,194,884
Non-vested stock	189,135	26,496
Series A convertible preferred stock	3,836,608	3,432,639
ESPP	53,410	
Total	5,848,507	5,277,155

(f) Recent Accounting Pronouncements

In June 2009 the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles A Replacement of FASB Statement No. 162*. SFAS 168 established the FASB Accounting Standards Codification (the **Codification**) as the single source of authoritative nongovernmental U.S. GAAP and was launched on July 1, 2009. The Codification does not change current U.S. GAAP but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting-standard documents are to be superseded, and all accounting literature excluded from the Codification is to be considered nonauthoritative. We adopted the Codification for the interim period ended October 31, 2009. There was no impact on our financial position or results of operations.

In conjunction with the issuance of SFAS 168, the FASB also issued ASU No. 2009-1, *Topic 105 Generally Accepted Accounting Principles* (**ASU 2009-1**), which includes SFAS 168 in its entirety as a transition to the ASC. ASU 2009-1 is effective for interim and annual periods ending after September 15, 2009 and will not have an impact on the Company s financial position or results of operations but will change the referencing system for accounting standards.

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Certain of the following pronouncements were issued prior to the issuance of the ASC and adoption of the ASUs. For such pronouncements, citations to the applicable Codification by Topic, Subtopic and Section are provided where applicable in addition to the original standard type and number.

Effective August 1, 2009, we adopted ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (**ASU 2009-13**), which amends FASB ASC Topic 605, *Revenue Recognition.* ASU 2009-13 amends the FASB ASC to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes (1) vendor-specific objective evidence, if available, (2) third-party evidence, if vendor-specific objective evidence is not available, and (3) estimated selling price, if neither vendor-specific nor third-party evidence is available. Additionally, ASU 2009-13 expands the disclosure requirements related to a vendor s multiple-deliverable revenue arrangements. This guidance is effective for us on August 1, 2010; however, we have elected to early adopt as permitted by the guidance. As such, we have prospectively applied the provisions of ASU 2009-13 to all revenue arrangements entered into or materially modified after August 1, 2009. During the current quarter the adoption of ASU 2009-13 had no impact.

In November 2008 the SEC issued for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (**IFRS**). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (the **IASB**). Under the proposed roadmap, in fiscal 2015 we could be required to prepare financial statements in accordance with IFRS. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We are currently assessing the impact that this change would have on our consolidated financial statements, and we will continue to monitor the development of the potential implementation of IFRS.

Effective August 1, 2009, we adopted FASB Staff Position (**FSP**) No. 142-3, *Determination of the Useful Life of Intangible Assets*, which was primarily codified into Topic 350 *Intangibles Goodwill and Other* (**FASB ASC 350** in the FASB ASC. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the estimated useful life of a recognized intangible asset and requires enhanced related disclosures. FASB ASC 350 improves the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This guidance must be applied prospectively to all intangible assets acquired as of and subsequent to fiscal years beginning after December 15, 2008. This guidance became effective for us on August 1, 2009. Although future transactions involving intangible assets may be affected by this guidance, it did not impact our financial position or results of operations as we did not acquire any intangible assets during the three months ended October 31, 2009.

Effective August 1, 2009, we adopted FSP No. 107-1 and APB Opinion 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* which is now part of FASB ASC 825, *Financial Instruments* (**FASB ASC 825**). FASB ASC 825 requires disclosures about fair value of financial instruments for interim and annual reporting periods and is effective for interim reporting periods ending after June 15, 2009. Such adoption did not have a material impact on our financial position or results of operations.

In December 2007 the FASB issued SFAS No. 141(R), *Business Combinations*, which is now part of FASB ASC 805, *Business Combinations* (**FASB ASC 805**), which requires most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination to be recorded at full fair value. Under FASB ASC 805 all business combinations will be accounted for under the acquisition method. Significant changes from current guidance resulting from FASB ASC 805 include, among others, the requirement that contingent assets, liabilities and consideration be recorded at estimated fair value as of the acquisition date, with any subsequent changes in fair value charged or credited to earnings. Further, acquisition-related costs are to be expensed rather than treated as part of the acquisition. FASB ASC 805 is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will apply the provisions of FASB ASC 805 to any acquisitions after July 31, 2009. The impact of this standard, if any, will not be known until the consummation of a business combination under the new standard.

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In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value* (**ASU 2009-05**), which amends ASC Topic 820 , *Fair Value Measurements and Disclosures*. ASU 2009-05 provides clarification and guidance regarding how to value a liability when a quoted price in an active market is not available for that liability. Changes to the FASB ASC as a result of this update are effective for us on November 1, 2009. We do not believe that adoption of these changes will have a material effect on our financial position or results of operations.

(3) Reclassifications

Certain fiscal-year-2009 amounts have been reclassified to conform to the current-year presentation, including the results of America s Job Exchange, our employment-services website (**AJE**), which were originally classified as a discontinued operation during the first three quarters of fiscal 2009. During the fourth quarter of fiscal 2009, we determined that it was no longer probable that a transaction would be completed within one year and therefore have reclassified AJE operations back into continuing operations for the previously reported period. AJE s revenue for the three-month period ended October 31, 2008, was $0.3 million.

(4) Subsequent Events

Effective July 2009 we adopted the provisions of the FASB-issued SFAS No. 165, *Subsequent Events,* which is now part of FASB ASC 855, *Subsequent Events* (**FASB ASC 855**). FASB ASC 855 establishes general standards of accounting for, and disclosure of, events that occur after the balance-sheet date but before financial statements are issued or are available to be issued. FASB ASC 855 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date; that is, whether the date represents the date on which the financial statements were issued or were available to be issued. In accordance with FASB ASC 855, we have evaluated subsequent events through December 10, 2009, the date of issuance of our consolidated financial statements. During the period from November 1, 2009, to December 10, 2009, we did not have any material recognizable subsequent events.

(5) Restructuring Charge

During the three months ended October 31, 2008, we initiated the restructuring of our professional-services organization in an effort to realign resources. As a result of this initiative, we terminated several employees resulting in an initial restructuring charge for severance and related costs of $0.5 million. This initial restructuring charge was adjusted during fiscal year 2009 to reflect the reduction of future payments of approximately $0.1 million due under the plan. The balance of $0.3 million at October 31, 2008, was included in Accrued expenses and other current liabilities in our condensed consolidated balance sheets. As of July 31, 2009, there were no future obligations.

(6) Property and Equipment

Property and equipment at October 31, 2009, and July 31, 2009, are summarized as follows:

	October 31, 2009	July 31, 2009
	(In thousands)	
Office furniture and equipment	$ 4,228	$ 4,208
Computer equipment	80,259	75,766
Software licenses	16,016	15,798
Leasehold improvements	26,488	25,838
	126,991	121,610
Less: Accumulated depreciation and amortization	(93,779)	(89,562)
Property and equipment, net	$ 33,212	$ 32,048

The estimated useful lives of our property and equipment are as follows: office furniture and equipment, five years; computer equipment, three years; software licenses, three years or the life of the license; and leasehold improvements, the lesser of the lease term or the asset s estimated useful life.

(7) Goodwill and Intangible Assets

		(In thousands)
Goodwill as of July 31, 2009	$	66,566
Adjustments to goodwill		
Goodwill as of October 31, 2009	$	66,566

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Intangible assets, net, consisted of the following:

	October 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)	
Customer lists	$39,392	$(27,265)	$12,127
Customer-contract backlog	14,600	(8,179)	6,421
Developed technology	3,140	(1,641)	1,499
Vendor contracts	700	(700)	
Trademarks	670	(248)	422
Non-compete agreements	206	(152)	54
Intangible assets, net	$58,708	$(38,185)	$20,523

	July 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)	
Customer lists	$39,392	$(26,498)	$12,894
Customer-contract backlog	14,600	(7,619)	6,981
Developed technology	3,140	(1,506)	1,634
Vendor contracts	700	(637)	63
Trademarks	670	(220)	450
Non-compete agreements	206	(135)	71
Intangible assets, net	$58,708	$(36,615)	$22,093

Intangible-asset amortization expense for the three months ended October 31, 2009 and 2008, aggregated $1.6 million and $1.8 million, respectively. Intangible assets are being amortized over estimated useful lives ranging from two to eight years.

The amount reflected in the table below for fiscal year 2010 includes year-to-date amortization. Amortization expense related to intangible assets for the next five years is projected to be as follows:

Year Ending July 31,	(In thousands)
2010	$ 6,068
2011	$ 5,921
2012	$ 5,776
2013	$ 2,307
2014	$ 1,869

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	October 31 2009	July 31, 2009
	(In thousands)	
Accrued payroll, benefits and commissions	$ 4,616	$ 4,086
Accrued accounts payable	2,678	2,408
Accrued interest	1,629	1,837
Accrued lease-abandonment costs, current portion	260	332
Accrued sales/use, property and miscellaneous taxes	473	421
Accrued legal	440	636
Other accrued expenses and current liabilities	1,931	1,939
	$12,027	$11,659

(9) Debt

Debt consists of the following:

	October 31, 2009	July 31, 2009
	(In thousands)	
Total debt	$ 110,671	$ 116,757
Less current portion term loan, revolver and other debt	4,202	10,603
Long-term term loan	$ 106,469	$ 106,154

Senior Secured Credit Facility

In June 2007 we entered into a senior secured credit agreement (the **Credit Agreement**) with a syndicated lending group. The Credit Agreement consisted of a six-year single-draw term loan (the **Term Loan**) totaling $90.0 million and a five-year $10.0 million revolving-credit facility (the **Revolver**). Proceeds from the Term Loan were used to pay our obligations under the Silver Point Debt, to pay fees and expenses totaling approximately $1.5 million related to the closing of the Credit Agreement, to provide financing for data-center expansion (totaling approximately $8.7 million) and for general corporate purposes. Borrowings under the Credit Agreement were guaranteed by us and certain of our subsidiaries.

Under the Term Loan we are required to make principal amortization payments during the six-year term of the loan in amounts totaling $0.9 million per annum, paid quarterly on the first day of our fiscal quarters. In June 2013 the balance of the Term Loan becomes due and payable. The outstanding principal under the Credit Agreement is subject to prepayment in the case of an Event of Default, as defined in the Credit Agreement. In addition, amounts outstanding under the Credit Agreement are subject to mandatory prepayment in certain cases, including, among others, a change in control of the Company, the incurrence of new debt and the issuance of equity of the Company. In the case of a mandatory prepayment resulting from a debt issuance, 100% of the proceeds must be used to prepay amounts owed under the Credit Agreement. In the case of an equity offering, we are entitled to retain the first $5.0 million raised and must prepay amounts owed under the Credit Agreement with 100% of any equity-offering proceeds that exceed $5.0 million.

Amounts outstanding under the initial Credit Agreement bore interest at either (a) the LIBOR rate plus 3.5% or, at our option, (b) the Base Rate, as defined in the Credit Agreement, plus the Federal Funds Effective Rate plus 0.5%. Upon the attainment of a Consolidated Leverage Ratio, as defined, of no greater than 3:1, the interest rate under the LIBOR option can decrease to LIBOR plus 3.0%. Interest becomes due and is payable quarterly in arrears. The Credit Agreement requires us to maintain interest-rate arrangements to minimize exposure to interest-rate fluctuations on an aggregate notional principal amount of 50% of amounts borrowed under the Term Loan.

The Credit Agreement requires us to maintain certain financial and non-financial covenants. Financial covenants include a minimum fixed-charge-coverage ratio, a maximum total-leverage ratio and an annual capital-expenditure limitation. At July 31, 2007, we had exceeded the maximum allowable annual capital expenditures under the terms of the Credit Agreement for the fiscal year ended July 31, 2007. In September 2007, in connection with an amendment to the Credit Agreement that waived the violation as of July 31, 2007, we received an increase in the maximum allowable annual capital expenditures for the fiscal year ended July 31, 2007. Non-financial covenants include restrictions on our ability to pay dividends, to make investments, to sell assets, to enter into merger or acquisition transactions, to incur indebtedness or liens, to enter into leasing transactions, to alter our capital structure and to issue equity. In addition, under the Credit Agreement, we are allowed to borrow, through one or more of our foreign subsidiaries, up to $10.0 million to finance data-center expansion in the United Kingdom.

Proceeds from the Term Loan were used to extinguish all of our outstanding debt with Silver Point Finance LLC (**Silver Point**). At the closing of the Credit Agreement, we had $75.5 million outstanding with Silver Point, which amount was paid in full. In addition, we incurred a $3.0 million prepayment penalty, which we paid with the proceeds of the Term Loan. At the closing of the Credit Agreement, our revolving commitment with Atlantic Investors, LLC was also terminated.

In August 2007 we entered into Amendment, Waiver and Consent Agreement No. 1 to the Credit Agreement (the **Amendment**). The Amendment permitted us (a) to use approximately $8.7 million of cash originally borrowed under the Credit Agreement, which amount was restricted for data-center expansion to partially fund the acquisition of Jupiter and Alabanza, and (b) to issue up to $75.0 million of indebtedness, so long as such indebtedness is unsecured, requires no amortization payment and becomes due or payable no earlier than 180 days after the maturity date of the Credit Agreement in June 2013.

In September 2007 we entered into an Amended and Restated Credit Agreement (the **Amended Credit Agreement**). The Amended Credit Agreement provided us with an incremental $20.0 million in term-loan borrowings and amended the rate of interest to LIBOR plus 4.0%, with a step-down to LIBOR plus 3.5% upon attainment of a 3:1 leverage ratio. All other terms of the Credit Agreement remained substantially the same. We recorded a loss on debt extinguishment of approximately $1.7 million for the six months ended January 31, 2008, to reflect this extinguishment of the Credit Agreement, in accordance with FASB ASC 470-50, *Debt Modifications and Extinguishments*, formerly EITF 96-19, *Debtor s Accounting for a Modification or Exchange of Debt Instruments*.

In January 2008 we entered into Amendment, Waiver and Consent Agreement No. 3 to the Amended Credit Agreement (the **January Amendment**). The January Amendment amended the definition of Permitted UK Datasite Buildout Indebtedness (as that term is defined in the Amended Credit Agreement) to total $16.5 million, as compared to $10.0 million, and requires the reduction of the $16.5 million to no less than $10.0 million as such indebtedness is repaid as to principal.

In June 2008 we entered into Amendment and Consent Agreement No. 4 to the Amended Credit Agreement (the **June Amendment**). The June Amendment (i) amended the definition of Permitted UK Datasite Buildout Indebtedness (as that term is defined in the Amended Credit Agreement) to total $33 million, as compared to $16.5 million, (ii) increased to $20 million the maximum amount of contingent obligations relating to all leases for any period of 12 months and (iii) increased the rate of interest to either (x) LIBOR plus 5.0% or (y) the Base Rate, as defined in the Amended Credit Agreement, plus 4.0%.

At July 31, 2008, we were not in compliance with our financial covenants of leverage, fixed charges and annual capital expenditures. In October 2008 we entered into Amendment, Waiver and Consent Agreement No. 5 to the Amended Credit Agreement (the **October Amendment**), which waived these violations as of July 31, 2008. In addition, the October Amendment (i) increased the rate of interest to either (x) LIBOR plus 6% or (y) the Base Rate, as defined in the Amended Credit Agreement, plus 5%, (ii) adds a 2% accruing PIK interest until the leverage ratio has been lowered to 3:1, (iii) changes the excess cash flow sweep to 75% to be performed quarterly, (iv) requires certain settlement and asset-sale proceeds to be used for debt repayment, (v) modifies certain financial covenants for future periods and (vi) requires a payment to the lenders of 3% of the outstanding term and revolving loans if a leverage ratio of 3:1 is not achieved by January 31, 2010. We were in compliance with the covenants under the Amended Credit Agreement as of October 31, 2009.

At October 31, 2009, $110.3 million was outstanding under the Amended Credit Agreement, of which $3.1 million was outstanding under the Revolver.

In order for us to comply with our credit agreement s senior-leverage ratio and fixed-charges covenants for quarterly periods in 2010 and beyond, we will need to achieve some of the following measures: (i) increase our Earnings Before Interest, Taxes, Depreciation and Amortization (**EBITDA**), (ii) successfully complete the sale of certain non-core assets (e.g., certain co-location data centers or other non-strategic assets), a portion of the proceeds from which would be used to repay debt, (iii) execute a debt-reduction plan, (iv) refinance our existing debt arrangement and (v) modify one of our significant data-center lease agreements. If the aforementioned measures are not sufficient to maintain compliance with our financial covenants, we would need to seek a waiver or amendment from the syndicated lending group. However, there can be no assurance that we could obtain such a waiver or amendment, in which case our debt would immediately become due and payable in full, an event that would adversely affect our liquidity and our ability to manage our business. We believe that our execution of some combination of the above measures will be sufficient for us to maintain compliance with our financial covenants throughout 2010.

(10) Fair-Value Measures and Derivative Instruments

In May 2006, we purchased an interest rate cap on a notional amount of 70% of the then outstanding principal of the Silver Point Debt. In June 2007, upon refinancing of the Silver Point Debt, we maintained the interest rate cap, as the Credit Agreement required a minimum

notional amount of 50% of the outstanding principal of the Credit Agreement. In October 2007, in connection with the execution of the Amended Credit Agreement in September 2007, we purchased an additional interest-rate cap, totaling $10.0 million of notional amount, as the Amended Credit Agreement required that we hedge a minimum notional amount of 50% of all Indebtedness, as defined in the Amended Credit Agreement. In March and July 2009, we amended the $10.0 million interest-rate cap previously purchased to increase the notional amount by $3.0 million and $3.0 million, respectively, to a total of $16.0 million. As of October 31, 2009, the fair value of these interest-rate derivatives (representing a notional amount of approximately $53.8 million at October 31, 2009) was approximately $0.1 million, which is included in Other assets in our condensed consolidated balance sheets. The change in fair value during the three months ended October 31, 2009, of approximately $2,000 was charged to Other income, net.

Fair value of derivative financial instruments. Derivative instruments are recorded in the balance sheet as either assets or liabilities, measured at fair value. Changes in fair value are recognized currently in earnings. We have utilized interest-rate derivatives to mitigate the risk of rising interest rates on a portion of our floating-rate debt and have not qualified for hedge accounting. The interest-rate differentials to be received under such derivatives are recognized as adjustments to interest expense, and the changes in the fair value of the instruments is recognized over the life of the agreements as Other income (expense), net. The principal objectives of the derivative instruments are to minimize the risks and reduce the expenses associated with financing activities. We do not use derivative financial instruments for trading purposes.

Effective August 1, 2008, we adopted FASB ASC 820 (**FASB ASC 820**), *Fair Value Measurements and Disclosures*, formally known as SFAS 157, which establishes a framework for measuring fair value and requires enhanced disclosures about fair-value measurements. FASB ASC 820 requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; and

Level 3 - unobservable inputs, such as discounted-cash-flow models or valuations.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair-value measurement. Our interest-rate derivatives required to be measured at fair value on a recurring basis, and where they are classified within the hierarchy, as of October 31, 2009, are as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
Interest-rate derivatives		$ 92,000		$ 92,000
		$ 92,000		$ 92,000

Interest-rate derivatives. The initial fair values of these instruments were determined by our counterparties, and we continue to value these securities based on quotes from our counterparties. Our interest-rate derivative is classified within Level 2, as the valuation inputs are based on quoted prices and market-observable data. The change in fair value for the three months ended October 31, 2009 and 2008 was a loss of approximately $2,000 and $4,000, respectively.

Fair value of non-derivative financial instruments. Long-term debt is carried at amortized cost. However, we are required to estimate the fair value of long-term debt under FASB ASC 825-10 (**FASB ASC 825-10**), formally known as SFAS 107, *Disclosures about Fair Value of Financial Instruments*. The fair value of the term loan was determined using current trading prices obtained from indicative market data on the term debt.

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A summary of the estimated fair value of our financial instruments as of October 31, 2009, and July 31, 2009, follows (in thousands):

	October 31, 2009		July 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Term loan short term	$ 819	$ 700	$ 546	$ 368
Term loan long term	106,469	91,031	106,154	71,654
Total term loan	$ 107,288	$ 91,731	$ 106,700	$ 72,022
Revolver	$ 3,062	$ 2,465	$ 10,018	$ 6,261

(11) Commitments and Contingencies

(a) Leases

Abandoned Leased Facilities During the three months ended October 31, 2008 and 2009, we recorded no lease impairment.

Details of activity in the lease-exit accrual by geographic region for the three months ended October 31, 2009, are as follows (in thousands):

Lease-Abandonment Costs for:	Balance July 31, 2009	Payments, less accretion of interest	Balance October 31, 2009
Andover, MA	$ 160	$ (23)	$ 137
Herndon, VA	34	(6)	28
Minneapolis, MN	234	(65)	169
	$ 428	$ (94)	$ 334

Minimum annual rental commitments under operating leases and other commitments as of October 31, 2009, are as follows:

Description	Total	Less than 1 Year	Year 2	Year 3	Year 4	Year 5	After Year 5
				(In thousands)			
Short/long-term debt	$110,672	$ 4,202	$ 1,092	$ 1,092	$104,286	$	$
Interest on debt[(a)]	36,839	10,863	9,924	9,826	6,226		
Capital leases[(b)]	22,499	5,077	3,090	2,318	2,300	2,300	7,414
Bandwidth commitments	1,252	1,120	132				
Property leases [(b) (c) (d)]	82,768	9,883	9,130	9,071	9,016	9,225	36,443
Total	$254,030	$31,145	$23,368	$22,307	$121,828	$11,525	$43,857

(a) Interest on debt assumes that LIBOR is fixed at 3.15% and that our leverage ratio drops below 3:1 as of January 31, 2010, resulting in a 2% interest-rate decrease. The 2% accruing PIK interest will be paid in full at the end of the loan term.

(b) Future commitments denominated in foreign currency are fixed at the exchange rates as of October 31, 2009.

(c) Amounts exclude certain common-area maintenance and other property charges that are not included within the lease payment.

(d) On February 9, 2005, we entered into an assignment and assumption agreement with a Las Vegas-based company, whereby this company bought our right to use 29,000 square feet in our Las Vegas data center, along with the infrastructure and equipment associated with this space. In exchange, we received an initial payment of $600,000 and were to receive $55,682 per month over two years. On May 31, 2006, we received full payment for the remaining unpaid balance. This agreement shifts the responsibility for management of the data center and its employees, along with the maintenance of the facility s infrastructure, to this Las Vegas-based company. Pursuant to this agreement, we have subleased back 2,000 square feet of space, allowing us to continue servicing our existing customer base in this market. Commitments related to property leases include an amount related to the 2,000-square-foot sublease.

Total bandwidth expense was $1.2 million and $1.4 million for the three months ended October 31, 2009 and 2008, respectively.

Total rent expense for property leases was $3.4 million and $3.3 million for the three months ended October 31, 2009 and 2008, respectively.

With respect to the property-lease commitments listed above, certain cash amounts are restricted pursuant to terms of lease agreements with landlords. At October 31, 2009, restricted cash of approximately $1.6 million related to these lease agreements and consisted of certificates of deposit and a treasury note and are recorded at cost, which approximates fair value.

(b) Legal Matters

IPO Securities Litigation

In 2001, lawsuits naming more than 300 issuers and over 50 investment banks were filed in the U.S. District Court for the Southern District of New York (the **Court**) for all pretrial purposes (the **IPO Securities Litigation**). Between June 13, 2001, and July 10, 2001, five purported class-action lawsuits seeking monetary damages were filed against us; Joel B. Rosen, our then-chief executive officer; Kenneth W. Hale, our then-chief financial officer; Robert E. Eisenberg, our then president; and the underwriters of our initial public offering of October 22, 1999. On September 6, 2001, the Court consolidated the five similar cases and a consolidated, amended complaint was filed on April 19, 2002 on behalf of all persons who acquired shares of our common stock between October 22, 1999 and December 6, 2000 (the **Class-Action Litigation**) against us and Messrs. Rosen, Hale and Eisenberg (collectively, the **NaviSite Defendants**) and against underwriter defendants Robertson Stephens (as successor-in-interest to BancBoston), BancBoston, J.P. Morgan (as successor-in-interest to Hambrecht & Quist), Hambrecht & Quist and First Albany. The plaintiffs uniformly alleged that all defendants, including the NaviSite Defendants, violated Sections 11 and 15 of the Securities Act of 1933, as amended (the **Securities Act**), Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the **Exchange Act**), and Rule 10b-5 by issuing and selling our common stock in the offering without disclosing to investors that some of the underwriters, including the lead underwriters, allegedly had solicited and received undisclosed agreements from certain investors to purchase aftermarket shares at pre-arranged, escalating prices and also to receive additional commissions and/or other compensation from those investors. Plaintiffs did not specify the amount of damages they sought in the Class-Action Litigation. On April 2, 2009, a stipulation and agreement of settlement among the plaintiffs, issuer defendants (including any present or former officers and directors) and underwriters was submitted to the Court for preliminary approval (the **Global Settlement**). Pursuant to the Global Settlement, all claims against the NaviSite Defendants would be dismissed with prejudice and our pro-rata share of the settlement consideration would be fully funded by insurance. By Opinion and Order dated October 5, 2009, after conducting a settlement fairness hearing on September 10, 2009, the Court granted final approval to the Global Settlement and directed the clerk to close each of the actions comprising the IPO Securities Litigation, including the Class-Action Litigation. A proposed final judgment in the Class-Action Litigation was filed on November 23, 2009, but has not yet been entered by the Court. Any appeal of the Court s final approval of the Global Settlement must be filed within 30 days of the date judgment is entered.

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The settlement remains subject to numerous conditions, including the resolution of several appeals that have been filed, and there can be no assurance that the Court s approval of the Global Settlement will be upheld in all respects upon appeal. We believe that the allegations against us are without merit, and, if the litigation continues, we intend to vigorously defend against the plaintiffs claims. Because of the inherent uncertainty of litigation, and because the settlement remains subject to numerous conditions and potential appeals, we are not able to predict the possible outcome of the suits and their ultimate effect, if any, on our business, financial condition, results of operations or cash flows.

On October 12, 2007, a purported NaviSite shareholder filed a complaint for violation of Section 16(b) of the Exchange Act, which provision prohibits short-swing trading, against two of the underwriters of the public offering at issue in the Class-Action Litigation. The complaint is pending in the U.S. District Court for the Western District of Washington (the **District Court**) and is captioned Vanessa Simmonds v. Bank of America Corp., et al. Plaintiff seeks the recovery of short-swing profits from the underwriters on behalf of the Company, which is named only as a nominal defendant and from which no recovery is sought. Simmonds complaint was dismissed without prejudice by the District Court on the grounds that she had failed to make an adequate demand on us before filing her complaint. Because the District Court dismissed the case on the grounds that it lacked subject-matter jurisdiction, it did not specifically reach the issue of whether the plaintiff s claims were barred by the applicable statute of limitations. However, the District Court also granted the underwriter defendants joint motion to dismiss with respect to cases involving other issuers, holding that the cases were time-barred because the issuers shareholders had notice of the potential claims more than five years before filing suit.

The plaintiff filed a notice of appeal with the Ninth Circuit Court of Appeals on April 10, 2009, and the underwriter defendants filed a cross-appeal, asserting that the dismissal should have been with prejudice. The appeal and cross-appeal are fully briefed. We do not expect that this claim will have a material impact on our financial position or results of operations.

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Other litigation

Covario, Inc.

On September 22, 2009, we filed an arbitration demand with the American Arbitration Association, seeking approximately $1,300,000 from Covario, Inc., for improper termination of a Master Service Agreement (**MSA**) and for failure to pay fees due and owing under the MSA. On October 7, 2009, Covario filed a counterclaim against us, seeking damages in excess of $10 million. Covario asserted six causes of action: (i) breach of contract, (ii) misrepresentation, (iii) fraud, (iv) violation of Chapter 93A of the Massachusetts Unfair Business Practices Act, including statutory triple damages, (v) unjust enrichment and (vi) declaratory judgment, seeking a declaration that we materially breached the MSA and that Covario properly terminated the MSA.

On October 29, 2009, we responded to the counterclaim, objecting to Covario s damage claims based on a variety of contractual provisions, including a limitation of liability and a cap on Covario s damages at the amount paid during the 12 months preceding a claim. We believe that the allegations against us are without merit, and, if the litigation continues, we intend to vigorously defend against Covario s claims. Because of the inherent uncertainty of litigation, we are not able to predict the possible outcome of the arbitration and its ultimate effect, if any, on our business, financial condition, results of operations or cash flows.

(12) Income-Tax Expense

We recorded $0.5 million and $0.5 million of deferred income-tax expense during the three months ended October 31, 2009 and 2008, respectively. No deferred-tax benefit was recorded for the losses incurred due to a valuation allowance recognized against deferred-tax assets. The deferred-tax expense results from tax-goodwill amortization related to the acquisitions of Surebridge, Inc., AppliedTheory Corporation, netASPx, Alabanza and iCommerce, Inc. For financial-statement purposes, goodwill is not amortized for any acquisitions but is tested for impairment annually. Tax amortization of goodwill results in a taxable temporary difference, which will not reverse until the goodwill is impaired or written off. The resulting taxable temporary difference may not be offset by deductible temporary differences currently available, such as net-operating-loss (**NOL**) carryforwards that expire within a definite period.

On August 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (**FIN 48**), which is now part of FASB ASC 740, *Income Taxes* (**FASB ASC 740**). The purpose of FIN 48 is to increase the comparability in financial reporting of income taxes. FIN 48 requires that in order for a tax benefit to be recorded in the income statement, the item in question must meet the more-likely-than-not threshold, which is met if the likelihood of the benefit s being sustained upon examination by the taxing authorities is greater than 50%. The adoption of FIN 48 did not have a material effect on our financial statements. No cumulative effect was booked through beginning retained earnings.

We are not currently under audit by the Internal Revenue Service or foreign-governmental revenue or tax authorities in any jurisdiction in which we file tax returns. We conduct business in multiple locations throughout the world, resulting in tax filings outside of the United States. We are subject to tax examinations regularly as part of the normal course of business. Our major jurisdictions are the United States, the United Kingdom and India. We are with few exceptions no longer subject to U.S. federal, state and local, or non-U.S., income-tax examinations for fiscal years before 2004. However, to the extent that we utilize NOLs generated before fiscal 2004, such utilization remains subject to review by U.S. federal and state revenue authorities. NOLs generated in the United Kingdom for fiscal year 2008 forward remain subject to review by governmental revenue or tax authorities in that jurisdiction.

We record interest and penalty charges related to income taxes, if incurred, as a component of general and administrative expenses.

We may have experienced a change in ownership as defined in Section 382 of the Internal Revenue Code (**Section 382**) during calendar-year 2008. An analysis is currently ongoing to determine if an ownership change did take place. An ownership change could severely restrict the use of our NOLs going forward. As a result of a change in ownership that occurred in September 2002, the utilization of our federal and state tax NOLs generated before this 2002 change is subject to an annual limitation of approximately $1.2 million (not including any further restrictions that may apply based on a potential ownership change in 2008). We expect that, as a result of this limitation, a substantial portion of our federal and state NOL carryforwards will expire unused.

We have after taking into consideration NOLs expected to expire unused due to the 2002 Section 382 limitation for ownership changes NOL carryforwards for federal- and state-tax purposes of approximately $189.7 million. The federal NOL carryforwards will expire from fiscal-year 2015 to fiscal-year 2029, and the state NOL carryforwards will expire from fiscal-year 2012 to fiscal-year 2029. Our utilization of these NOL carryforwards may be further limited if we experience additional ownership changes, as defined in Section 382 in calendar-year 2008, as described above, or in future years. We have foreign NOL carryforwards of $5.6 million that may be carried forward indefinitely.

(13) Related-Party Transactions

We provide hosting services for Global Marine Systems, which is controlled by the chairman of our board of directors. During the three months ended October 31, 2009 and 2008, we generated revenues of approximately $36,000 and $31,000, respectively, under this arrangement, which has been included in Revenue, related parties, in our condensed consolidated statements of operations. The accounts-receivable balances at October 31, 2009 and July 31, 2009, related to this related party were not significant.

During the three months ended October 31, 2009 and 2008, we performed professional and hosting services for a company whose chief executive officer is related to our chief executive officer. For the three months ended October 31, 2009 and 2008, revenue generated from this company was approximately $58,000 and $52,000, respectively, which amounts are included in Revenue, related parties, in our condensed consolidated statements of operations. The accounts-receivable balances at October 31, 2009 and July 31, 2009, related to this related party were not significant.

On February 4, 2008, one of our subsidiaries, NaviSite Europe Limited, entered into and we guaranteed a Lease Agreement (the **Lease**) for approximately 10,000 square feet of data-center space located in Caxton Way, Watford, U.K. (the **Data Center**), with Sentrum III Limited. The Lease has a 10-year term. NaviSite Europe Limited and we are also parties to a services agreement with Sentrum Services Limited for the provision of services within the data center. At October 31, 2009 we had capital-lease obligations totaling $11.1 million related to equipment under the lease agreements. During the three months ending October 31, 2009 and 2008, we paid $0.6 million and $0.6 million, respectively, under these arrangements. The chairman of our board of directors has a financial interest in each of Sentrum III Limited and Sentrum Services Limited.

In November 2007 NaviSite Europe Limited entered into and we guaranteed a lease-option agreement for data-center space in the UK with Sentrum IV Limited. As part of this lease-option agreement, we made a fully refundable deposit of $5.0 million in order to secure the right to lease the space upon the completion of the building construction. In July 2008 the final lease agreement was completed for approximately 11,000 square feet of data-center space. Subsequent to July 31, 2008, the deposit was returned to us. The chairman of our board of directors has a financial interest in Sentrum IV Limited. In September 2009 the parties terminated this arrangement.

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

This quarterly report on Form 10-Q of NaviSite contains forward-looking statements, within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act, that involve risks and uncertainties. All statements other than statements of historical information provided herein are forward-looking statements and may contain information about financial results, economic conditions, trends and known uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of a number of factors, which include those discussed in this section and elsewhere in this report under Item 1A (Risk Factors) and in our annual report on Form 10-K under Item 1A (Risk Factors) and the risks discussed in our other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis, judgment, belief or expectation only as of the date hereof. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Overview

NaviSite is a global information-technology (**IT**) provider of enterprise-hosting and application services. We help more than 1,500 customers reduce the cost and complexity of IT, increase their service levels, free IT resources and focus on their core businesses by offering a comprehensive suite of customized IT-as-a-service solutions. Our goal is to be the leading provider for cloud-enabled enterprise-hosting and managed-application services by leveraging our deep knowledge, experience, technology platform, commitment to flexibility and responsiveness to our customers.

Our core competencies are to provide complex enterprise-hosting solutions, customized managed-application services and remote operations services. Our suite of managed applications includes Oracle e-Business Suite, PeopleSoft Enterprise, Siebel, JD Edwards, Hyperion, Lawson, Kronos, Lotus Domino and Microsoft Dynamics, including Exchange email services. By managing application and infrastructure and providing comprehensive services, we are able to address the key challenges faced by IT organizations today: increasing complexity, pressures on capital and operating expenses and declining or limited resources.

We provide our services from a global platform of 13 data centers in the United States and two in the United Kingdom, totaling approximately 200,000 square feet of usable space, and a primary NOC in India and secondary NOC support based out of Andover, Massachusetts. Using this platform, we leverage innovative and scalable uses of technology, including shared components and virtualization, along with the subject-matter expertise of our professional staff to deliver what we believe are cost-effective, flexible solutions that provide responsive and predictable levels of service to meet our customers business needs. Combining our technology, domain expertise and competitive fixed-cost infrastructure, we can offer our customers the cost and functional advantages of outsourcing with a proven partner like NaviSite. We are dedicated to delivering quality services and meeting rigorous standards, including maintaining our SAS 70 Type II compliance and Microsoft Gold and Oracle Certified Partner certifications.

In addition to delivering enterprise hosting and application services, we are able to leverage our infrastructure and application-management platform, NaviView[tm], to deliver our partners software on demand and thereby provide an alternative to the traditional licensing of software. As the platform provider for an increasing number of independent software vendors (**ISVs**) and providers of software-as-a-service (**SaaS**), we enable solutions and services to a diverse, growing customer base. We have adapted our infrastructure and platform by incorporating virtualization technologies to provide services specific to the needs of our customers in order to increase our market share.

Our services include:

Enterprise-Hosting Services

NaviSite s hosting services provide highly dependable and secure technology solutions for our customers critical IT needs.

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Infrastructure as a Service (***IaaS***) Support provided for hardware and software located in one of our 15 data centers. We also provide bundled offerings packaged as content-delivery services. Specific services include:

- dedicated and virtual servers;
- business continuity and disaster recovery;
- connectivity;
- content distribution;
- database administration and performance tuning;
- desktop support;
- hardware management;
- monitoring;
- network management;
- security;
- server and operating management; and
- storage management.

Software as a Service Enablement of SaaS to the ISV community. Services include SaaS starter kits and services specific to the needs of ISVs that want to offer their software in an on-demand or subscription mode.

Co-location Physical space offered in a data center. In addition to providing the physical space, NaviSite offers environmental support, specified power with backup power generation and network-connectivity options.

Application Management

We provide implementation and operational services for the packaged applications listed below. We offer in addition to packaged enterprise-resource-planning (**ERP**) applications outsourced messaging, including the monitoring and management of Microsoft Exchange and Lotus Domino. Application-management services are available either in a NaviSite data center or, through remote management, on customers premises. Moreover, our customers can choose to use dedicated or shared servers. We also provide specific services to help customers migrate from legacy or proprietary messaging systems to Microsoft Exchange or Lotus Domino, and our experts can customize messaging and collaborative applications. We offer user provisioning, spam filtering, virus protection and enhanced monitoring and reporting.

ERP Application-Management Services Defined services provided for specific packaged applications. Services include implementation, upgrade assistance, monitoring, diagnostics, problem resolution and functional end-user support. Applications include:

- Oracle e-Business Suite;
- PeopleSoft Enterprise;
- Siebel;

JD Edwards;

Hyperion;

Lawson;

Kronos;

Microsoft Dynamics;

Microsoft Exchange; and

Lotus Domino.

ERP Professional Services Planning, implementation, optimization, enhancement and upgrades for supported third-party ERP applications.

Custom-Development Professional Services Planning, implementation, optimization and enhancement for custom applications developed by us or our customers.

We provide these services to a range of industries including financial services, healthcare and pharmaceuticals, manufacturing and distribution, publishing, media and communications, business services, public sector and software through our own sales force and sales-channel relationships.

Our managed-hosting, -application and -remote-operations services are facilitated by our proprietary NaviView^{tm} collaborative infrastructure- and application-management platform. As described further below, our NaviView^{tm} platform enables us to provide highly efficient, effective and customized management of enterprise applications and hosted infrastructure. Comprised of a suite of third-party and proprietary products, NaviView^{tm} provides tools designed specifically to meet the needs of customers who outsource IT functions.

Supporting our managed-hosting and applications services requires a range of hardware and software designed for the specific needs of our customers. NaviSite is a leader in using virtual computing and memory, shared and dedicated storage and networking as ways to optimize services for performance, cost and operational efficiency. We strive to continually innovate as technology develops. An example of this continued innovation is the deployment of our utility- or cloud-based infrastructure to maximize infrastructure leverage.

We believe that the combination of NaviView^{tm}, our dedicated and virtual utility platform, with our physical infrastructure and technical staff gives us a unique ability to provide complex enterprise hosting and application services. NaviView^{tm} is hardware-, application- and operating-system-neutral. Designed to enable enterprise-hosting and software applications to be monitored and managed, our NaviView^{tm} technology allows us to offer new solutions to our software vendors and new products to our current customers.

We believe that our data centers and infrastructure have the capacity necessary to expand our business for the foreseeable future. Further, trends in hardware virtualization and the density of computing resources, which reduce the required square footage, or footprint, in the data center, are favorable to NaviSite s services-oriented offerings, as compared with traditional co-location or managed-hosting providers. Our services, as described below, combine our developed infrastructure with established processes and procedures for delivering hosting- and application-management services. Our high-availability infrastructure, high-performance monitoring systems and proactive and collaborative problem-resolution and change-management processes are designed to identify and address potentially crippling problems before they disrupt our customers operations.

We currently serve over 1,500 customers. Our hosted customers typically enter into service agreements for a term of one to five years, with monthly payments, that provide us with a recurring revenue base. Our revenue growth comes from adding new customers and delivering additional services to existing customers. Our recurring revenue base is affected by new customers and renewals and terminations with existing customers.

During fiscal 2008 and in past years, we have grown through business acquisitions and have restructured our operations. Most recently, in August 2007 we acquired the assets of Alabanza, LLC, and Hosting Ventures, LLC (collectively, **Alabanza**), and all of the issued and

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outstanding stock of Jupiter Hosting, Inc. (**Jupiter**). These acquisitions provided additional managed-hosting customers, proprietary software for provisioning and additional data-center space in the Bay Area market. In September 2007 we acquired netASPx, Inc. (**netASPx**), an application-management service provider, and in October 2007 we acquired the assets of iCommerce, Inc., a re-seller of dedicated hosting services. We expect to make additional acquisitions to take advantage of our available capacity, which will have significant effects on our financial results in the future.

Results of Operations for the Three Months Ended October 31, 2009 and 2008

The following table sets forth the percentage relationships of certain items from our condensed consolidated statements of operations as a percentage of total revenue for the periods indicated.

	Three Months Ended October 31,	
	2009	2008
Revenue, net	99.7%	99.8%
Revenue, related parties	0.3%	0.2%
Total revenue	100.0%	100.0%
Cost of revenue, excluding restructuring charge, depreciation and amortization	50.8%	54.2%
Depreciation and amortization	15.1%	14.3%
Restructuring charge		0.5%
Total cost of revenue	65.9%	69.0%
Gross profit	34.1%	31.0%
Operating expenses:		
Selling and marketing	13.6%	14.0%
General and administrative	15.4%	15.0%
Restructuring charge		0.6%
Total operating expenses	29.0%	29.6%
Income from operations	5.1%	1.4%
Other income (expense):		
Interest income		
Interest expense	(10.4)%	(7.7)%
Other income (expense), net	0.3%	1.2%
Loss before income taxes	(5.0)%	(5.1)%
Income taxes	(1.5)%	(1.2)%
Net loss	(6.5)%	(6.3)%
Accretion of preferred-stock dividends	(2.4)%	(2.0)%
Net loss attributable to common stockholders	(8.9)%	(8.3)%

Comparison of the Three Months Ended October 31, 2009 and 2008

Revenue

We derive our revenue from managed-IT services including hosting, co-location and application services comprised of a variety of service offerings and professional services to both enterprise and mid-market companies and organizations. These entities include mid-sized companies, divisions of large multinational companies and government agencies.

Total revenue for the three months ended October 31, 2009, decreased 8% to approximately $36.8 million from approximately $40.2 million for the three months ended October 31, 2008. The overall decline of approximately $3.4 million in revenue was mainly due to a $2.8 million reduction in professional-services revenues and to a reduction of $0.8 million in our enterprise-hosting and -application services revenue as a result of our decision not to renew one of our data center leases in April 2009. These revenue decreases were partially offset by an increase of $0.2 million in revenues from our employment-services website, America s Job Exchange (**AJE**). Revenue from related parties during the three months ended October 31, 2009 and 2008, totaled $94,000 and $83,000, respectively.

Cost of Revenue and Gross Profit

Cost of revenue consists primarily of salaries and benefits for operations personnel, bandwidth fees and related Internet-connectivity charges, equipment costs and related depreciation and costs to run our data centers, such as rent and utilities.

Total cost of revenue for the three months ended October 31, 2009, decreased approximately 13% to $24.2 million during the three months ended October 31, 2009, from approximately $27.7 million during the three months ended October 31, 2008. As a percentage of revenue, total cost of revenue decreased to 65.9% during the three months ended October 31, 2009, from 69.0% during the three months ended October 31, 2008. The overall decrease of approximately of $3.5 million was primarily due to: decreased salary-related expenses of $1.9 million; decreased facilities-related expense, including rent, utilities and telecommunication, of approximately $0.8 million due in part to our decision not to renew the lease of one of our data centers in April 2009; decreased third party costs, including $0.6 million related to third party pass through costs and external consultant expenses of $0.3 million; and decreased depreciation expense of approximately $0.2 million. These expense reductions of approximately $3.8 million were partially offset by higher software- and hardware-maintenance and -licensing costs of approximately $0.2 million during the period and higher marketing related expenses of $0.1 million directly related to the support of AJE.

During the three months ended October 31, 2008, we initiated the restructuring of our professional-services organization in an effort to realign resources. As a result of this initiative, we terminated several employees, resulting in a restructuring charge for severance and related costs of $0.5 million, of which approximately $0.2 million was included in cost of revenue.

Gross profit of approximately $12.6 million for the three months ended October 31, 2009, increased approximately $0.2 million, or 1%, from a gross profit of approximately $12.4 million for the three months ended October 31, 2008. Gross profit for the three months ended October 31, 2009, represented 34.1% of total revenue, compared to 31% of total revenue for the three months ended October 31, 2008. Our gross profit percentage was positively impacted during the three months ended October 31, 2009, as compared to the three months ended October 31, 2008, primarily due to our continued focus on cost containments and the cost reductions in response to the lower professional-services revenue noted above.

Operating Expenses

Selling and Marketing Selling and marketing expense consists primarily of salaries and related benefits, commissions and marketing expenses such as advertising, product literature, trade-show costs and marketing and direct-mail programs.

Selling and marketing expense decreased 12% to approximately $5.0 million, or 13.6% of total revenue, during the three months ended October 31, 2009, from approximately $5.7 million, or 14.0% of total revenue, during the three months ended October 31, 2008. The decrease of approximately $0.7 million resulted primarily from the decreased salary and related headcount expenses of $0.8 million, off-set by an increase in commission and lead-referral fees of approximately $0.1 million.

General and Administrative General and administrative expense includes the costs of financial, human-resources, IT and administrative personnel, professional services, bad debt and corporate overhead.

General and administrative expense decreased 5% to approximately $5.7 million, or 15.4% of total revenue, during the three months ended October 31, 2009, from approximately $6.0 million, or 15.0% of total revenue, during the three months ended October 31, 2008. The mix of expenses changed such that there was a decrease in external professional service related fees, including accounting and legal fees, of approximately $0.3 million; a decrease in salary and related headcount expenses of approximately $0.2 million; and an increase in tax related expenses of approximately $0.1 million.

Restructuring No restructuring charge was recorded during the three months ended October 31, 2009.

During the three months ended October 31, 2008, we initiated the restructuring of our professional-services organization in an effort to realign resources. As a result of this initiative, we terminated several employees, resulting in a restructuring charge for severance and related costs of $0.5 million, of which approximately $0.3 million was included in operating expenses.

Interest Income

Interest income remained relatively consistent during the three months ended October 31, 2009 and 2008. We recognized minimal interest income during the two periods due to the fact that interest rates were low and we used available cash to pay down outstanding debt.

Interest Expense

During the three months ended October 31, 2009, interest expense increased to approximately $3.8 million from approximately $3.0 million for the three months ended October 31, 2008. The increase of $0.8 million for the three months ended October 31, 2009, is primarily due to an increased rate of interest and a higher average outstanding term-loan balance during the three months ended October 31, 2009, compared to the three months ended October 31, 2008.

Other Income (Expense), Net

Other income (expense), net, was approximately $0.1 million during the three months ended October 31, 2009, compared to Other income (expense), net, of approximately $0.5 million during the three months ended October 31, 2008. The Other income (expense), net, recorded during the three months ended October 31, 2009, and 2008 is primarily attributable to sublease income and other miscellaneous income, including foreign exchange gain (loss).

Income-Tax Expense

We recorded $0.5 million and $0.5 million of income-tax expense during the three months ended October 31, 2009 and 2008, respectively. No income-tax benefit was recorded for the losses incurred due to a valuation allowance recognized against deferred tax assets. The deferred tax expense resulted from tax-goodwill amortization related to the Surebridge asset acquisition in June 2004, the acquisition of certain AppliedTheory Corporation assets by CBTM before the pooling of interests in December 2002, the asset acquisition of Alabanza in September 2007 and the asset acquisition of iCommerce in October 2007. Accordingly, the acquired goodwill and intangible assets for these acquisitions are amortizable for tax purposes over 15 years. For financial-statement purposes goodwill is not amortized for any of these acquisitions but is tested for impairment annually. Tax amortization of goodwill results in a taxable temporary difference, which will not reverse until the goodwill is impaired or written off. The resulting taxable temporary difference may not be offset by deductible temporary differences currently available, such as NOL carryforwards, which expire within a definite period.

Liquidity and Capital Resources

As of October 31, 2009, our principal sources of liquidity included cash and cash equivalents of $4.2 million and a revolving-credit facility of $10.0 million provided under our credit agreement with a lending syndicate. At October 31, 2009, we had borrowed $3.1 million under the revolving-credit facility, down from $10.0 million outstanding at July 31, 2009. Our current assets, including cash and cash equivalents of $4.2 million, were approximately $1.7 million less than our current liabilities at October 31, 2009, as compared to a negative working capital of $1.0 million, including cash and cash equivalents of $10.5 million, at July 31, 2009. A deposit of $5.0 million, to secure additional data center space in the United Kingdom, was refunded during the three months ending October 31, 2008.

Cash and cash equivalents decreased approximately $6.4 million for the three months ended October 31, 2009. Our primary sources of cash included approximately $4.6 million in cash provided by operations and $0.5 million in proceeds from borrowings on notes payable. Net cash provided by operating activities of approximately $4.6 million for the three months ended October 31, 2009, resulted from the funding of our net loss of $2.4 million, and a negative net change in operating assets and liabilities of $0.2 million off-set by non-cash charges of $7.2 million.

The primary uses of cash for the three months ended October 31, 2009, included $4.0 million to purchase property, plant and equipment; and $8.1 million paid in respect of notes payable and capital-lease obligations. At October 31, 2009, we had an accumulated deficit of $522.0 million.

Our revolving-credit facility allows for maximum borrowing of $10.0 million and expires in June 2012. Outstanding amounts bear interest at either LIBOR plus 6% or, at our option, the Base Rate, as defined in our credit agreement, plus 5%. There is an additional 2% accruing as PIK interest until the leverage ratio has been lowered to 3:1. Interest becomes due, and is payable, quarterly in arrears.

We believe that our existing cash and cash equivalents, cash flow from operations and existing amounts available under our credit facility will be sufficient to meet our anticipated cash needs for at least the next 12 months.

In order for us to comply with our credit agreement s senior-leverage ratio and fixed-charges covenants for future quarterly periods in 2010 and beyond, we will need to achieve some of the following measures: (i) increase our EBITDA, (ii) successfully complete the sale of certain non-core assets (e.g., certain co-location data centers or other non-strategic assets), a portion of the proceeds from which would be used to repay debt, (iii) execute a debt-reduction plan, (iv) refinance our existing debt arrangement and (v) modify one of our significant data-center lease agreements. If the aforementioned measures are not sufficient to maintain compliance with our financial covenants, we would need to seek a waiver or amendment from the syndicated lending group. However, there can be no assurance that we could obtain such a waiver or amendment, in which case our debt would immediately become due and payable in full, an event that would adversely affect our liquidity and our ability to manage our business. We believe that our execution of some combination of the above measures will be sufficient for us to maintain compliance with our financial covenants throughout 2010.

Recent Accounting Pronouncements

In June 2009 the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles A Replacement of FASB Statement No. 162*. SFAS 168 established the FASB Accounting Standards Codification (the **Codification**) as the single source of authoritative nongovernmental U.S. GAAP and was launched on July 1, 2009. The Codification does not change current U.S. GAAP but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting-standard documents are to be superseded, and all accounting literature excluded from the Codification is to be considered nonauthoritative. We adopted the Codification for the interim period ended October 31, 2009. There was no impact on our financial position or results of operations.

In conjunction with the issuance of SFAS 168, the FASB also issued ASU No. 2009-1, *Topic 105 Generally Accepted Accounting Principles* (**ASU 2009-1**), which includes SFAS 168 in its entirety as a transition to the ASC. ASU 2009-1 is effective for interim and annual periods ending after September 15, 2009 and will not have an impact on the Company s financial position or results of operations but will change the referencing system for accounting standards.

Certain of the following pronouncements were issued prior to the issuance of the ASC and adoption of the ASUs. For such pronouncements, citations to the applicable Codification by Topic, Subtopic and Section are provided where applicable in addition to the original standard type and number.

Effective August 1, 2009, we adopted ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (**ASU 2009-13**), which amends FASB ASC Topic 605, *Revenue Recognition*. ASU 2009-13 amends the FASB ASC to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes (1) vendor-specific objective evidence (**VSOE**), if available, (2) third-party evidence (**TPE**), if VSOE is not available, and (3) estimated selling price (**ESP**), if neither VSOE nor TPE is available. Additionally, ASU 2009-13 expands the disclosure requirements related to a vendor s multiple-deliverable revenue arrangements. This guidance is effective for us on August 1, 2010; however, we have elected to early adopt as permitted by the guidance. As such, we have prospectively applied the provisions of ASU 2009-13 to all revenue arrangements entered into or materially modified after August 1, 2009. During the current quarter the adoption of ASU 2009-13 had no impact.

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In November 2008 the SEC issued for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (**IFRS**). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (the **IASB**). Under the proposed roadmap, in fiscal 2015 we could be required to prepare financial statements in accordance with IFRS. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We are currently assessing the impact that this change would have on our consolidated financial statements, and we will continue to monitor the development of the potential implementation of IFRS.

Effective August 1, 2009, we adopted FASB Staff Position (**FSP**) No. 142-3, *Determination of the Useful Life of Intangible Assets*, which was primarily codified into Topic 350 *Intangibles Goodwill and Other* (**FASB ASC 350** in the FASB ASC. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the estimated useful life of a recognized intangible asset and requires enhanced related disclosures. FASB ASC 350 improves the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This guidance must be applied prospectively to all intangible assets acquired as of and subsequent to fiscal years beginning after December 15, 2008. This guidance became effective for us on August 1, 2009. Although future transactions involving intangible assets may be affected by this guidance, it did not impact our financial position or results of operations as we did not acquire any intangible assets during the three months ended October 31, 2009.

Effective August 1, 2009, we adopted FSP No. 107-1 and APB Opinion 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* which is now part of FASB ASC 825, *Financial Instruments* (**FASB ASC 825**). FASB ASC 825 requires disclosures about fair value of financial instruments for interim and annual reporting periods and is effective for interim reporting periods ending after June 15, 2009. Such adoption did not have a material impact on our financial position or results of operations.

In December 2007 the FASB issued SFAS No. 141(R), *Business Combinations*, which is now part of FASB ASC 805, *Business Combinations* (**FASB ASC 805**), which requires most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination to be recorded at full fair value. Under FASB ASC 805 all business combinations will be accounted for under the acquisition method. Significant changes from current guidance resulting from FASB ASC 805 include, among others, the requirement that contingent assets, liabilities and consideration be recorded at estimated fair value as of the acquisition date, with any subsequent changes in fair value charged or credited to earnings. Further, acquisition-related costs are to be expensed rather than treated as part of the acquisition. FASB ASC 805 is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will apply the provisions of FASB ASC 805 to any acquisitions after July 31, 2009. The impact of this standard, if any, will not be known until the consummation of a business combination under the new standard.

In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value* (**ASU 2009-05**), which amends ASC Topic 820, *Fair Value Measurements and Disclosures*. ASU 2009-05 provides clarification and guidance regarding how to value a liability when a quoted price in an active market is not available for that liability. Changes to the FASB ASC as a result of this update are effective for us on November 1, 2009. We do not believe that adoption of these changes will have a material effect on our financial position or results of operations.

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Contractual Obligations and Commercial Commitments

We are obligated under various capital and operating leases for facilities and equipment. Future minimum annual rental commitments under capital and operating leases and other commitments, as of October 31, 2009, are as follows:

Description	Total	Less than 1 Year	1-3 Years	4-5 Years	After Year 5
			(In thousands)		
Short/long-term debt	$110,672	$ 4,202	$ 2,184	$104,286	$
Interest on debt[a]	36,839	10,863	19,750	6,226	
Capital leases[b]	22,499	5,077	5,408	4,600	7,414
Bandwidth commitments	1,252	1,120	132		
Property leases [b] [c] [d]	82,768	9,883	18,201	18,241	36,443
Total	$254,030	$31,145	$45,675	$133,353	$43,857

(a) Interest on debt assumes that LIBOR is fixed at 3.15% and that our leverage ratio drops below 3:1 as of January 31, 2010, resulting in a 2% interest-rate decrease. The 2% accruing PIK interest will be paid in full at the end of the loan term.

(b) Future commitments denominated in foreign currency are fixed at the exchange rates as of October 31, 2009.

(c) Amounts exclude certain common area maintenance and other property charges that are not included within the lease payment.

(d) On February 9, 2005, we entered into an assignment and assumption agreement with a Las Vegas-based company, whereby this company bought our right to use 29,000 square feet in our Las Vegas data center, along with the infrastructure and equipment associated with this space. In exchange, we received an initial payment of $600,000 and were to receive $55,682 per month over two years. On May 31, 2006, we received full payment for the remaining unpaid balance. This agreement shifts the responsibility for management of the data center and its employees, along with the maintenance of the facility s infrastructure, to this Las Vegas-based company. Pursuant to this agreement, we have subleased back 2,000 square feet of space, allowing us to continue servicing our existing customer base in this market. Commitments related to property leases include an amount related to the 2,000-square-foot sublease.

Off-Balance Sheet Financing Arrangements

We do not have any off-balance-sheet financing arrangements other than operating leases, which are recorded in accordance with U.S. GAAP.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires that we make certain estimates, judgments and assumptions that we believe are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the periods presented. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results are revenue recognition; allowance for doubtful accounts; impairment of long-lived assets, goodwill and other intangible assets; stock-based compensation; impairment costs; and income taxes. We review our estimates on a regular basis and make adjustments based on historical experiences, current conditions and future expectations. We perform these reviews regularly and make adjustments in light of currently available information. We believe that these estimates are reasonable, but actual results could differ from these estimates.

Revenue Recognition. We derive our revenue primarily from monthly fees for website and Internet-application management and hosting, co-location services and professional services. Reimbursable expenses charged to customers are included in revenue and cost of revenue. Revenue is recognized as services are performed in accordance with all applicable revenue-recognition criteria.

Application-management, hosting and co-location services are billed and recognized as revenue over the term of the applicable contract based on actual customer usage. These terms generally are one to five years. Installation fees associated with application-management, hosting and co-location services are billed when the installation service is provided and recognized as revenue over the term of the related contract. Installation fees generally consist of fees charged to set up a specific technological environment for a customer within a NaviSite data center. In instances where payment for a service is received in advance of performing those services, the related revenue is deferred until the period in which such services are performed. The direct and incremental costs associated with installation and setup activities are capitalized and expensed over the greater of the term of the related contract or the expected customer life.

Professional-services revenue is recognized on a time and materials basis as the services are performed for time- and materials-type contracts or on a percentage-of-completion method for fixed-price contracts. We estimate the percentage of completion using the ratio of hours incurred on a contract to the projected hours expected to be incurred to complete the contract. Estimates to complete contracts are prepared by project managers and reviewed by management each month. When current contract estimates indicate that a loss is probable, a provision is made for the total anticipated loss in the current period. Contract losses are determined as the amount by which the estimated service costs of the contract exceed the estimated revenue that will be generated by the contract. Historically, our estimates have been consistent with actual results. Unbilled accounts receivable represent revenue for services performed that have not been billed. Billings in excess of revenue recognized are recorded as deferred revenue until the applicable revenue-recognition criteria are met.

Effective August 1, 2009, we adopted Accounting Standards Update (**ASU**) No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, which amends FASB Accounting Standards Codification (**ASC**) Topic 605, *Revenue Recognition*. ASU 2009-13 amends FASB ASC Topic 605 to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes (1) VSOE, if available, (2) TPE, if VSOE is not available, and (3) ESP, if neither VSOE nor TPE is available. Additionally, ASU 2009-13 expands the disclosure requirements related to a vendor s multiple-deliverable revenue arrangements. This guidance is effective for us on August 1, 2010; however, we have elected to adopt early, as permitted by the guidance. As such, we have prospectively applied the provisions of ASU 2009-13 to all revenue arrangements entered into or materially modified after August 1, 2009.

In accordance with ASU 2009-13, we allocate arrangement consideration to each deliverable in an arrangement based on its relative selling price. We determine selling price using VSOE, if it exists; otherwise, we use TPE. If neither VSOE nor TPE of selling price exists for a unit of accounting, we use ESP.

We apply judgment to ensure the appropriate application of ASU 2009-13, including with respect to the determination of fair value for multiple deliverables, the determination of whether undelivered elements are essential to the functionality of delivered elements and the timing of revenue recognition, among others. For those arrangements with respect to which the deliverables do not qualify as a separate unit of accounting, revenue from all deliverables is treated as one accounting unit and generally recognized ratably over the term of the arrangement.

Existing customers are subject to initial and ongoing credit evaluations based on credit reviews that we perform and, subsequent to beginning as a customer, payment history and other factors, including the customer s financial condition and general economic trends. If we determine, subsequent to our initial evaluation at any time during the arrangement, that collectability is not reasonably assured, revenue is recognized as cash is received, as collectability is not considered probable at the time that the services are performed.

Allowance for Doubtful Accounts. We perform initial and periodic credit evaluations of our customers financial conditions. We make estimates of the collectability of our accounts receivable and maintain an allowance for doubtful accounts for potential credit losses. We specifically analyze accounts receivable and consider historical bad debts, customer and industry concentrations, customer creditworthiness (including the customer s financial performance and its business history), current economic trends and changes in our customers payment patterns when evaluating the adequacy of the allowance for doubtful accounts. We specifically reserve for 100% of the balance of customer accounts deemed uncollectible. For all other customer accounts, we reserve as needed based upon our estimates of uncollectible amounts based on historical bad debt. Changes in economic conditions or the financial viability of our customers may result in additional provisions for doubtful accounts in excess of our current estimate. Historically, our estimates have been consistent with actual results. A 5% to 10% unfavorable change in our provision requirements would result in an approximate $0.1 million to $0.2 million decrease to income from operations for the fiscal quarter ended October 31, 2009.

Impairment of Long-Lived Assets and Goodwill and Other Intangible Assets. We review our long-lived assets, subject to amortization and depreciation, for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Long-lived and other intangible assets include customer lists, customer-contract backlog, developed technology, vendor contracts, trademarks, non-compete agreements and property and equipment. Factors we consider important that could trigger an impairment review include:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy of our overall business;
- significant negative industry or economic trends;
- significant declines in our stock price for a sustained period; and
- our market capitalization relative to net book value.

Recoverability is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If the undiscounted cash flows expected to be generated by the use and disposal of the asset are less than its carrying value and therefore impaired, we recognize the impairment loss as measured by the amount by which the carrying value of the assets exceeds its fair value. Fair value is determined based on discounted cash flows or values determined by reference to third-party valuation reports, depending on the nature of the asset. Assets to be disposed of are valued at the lower of the carrying amount or their fair value, less disposal costs. Property and equipment is primarily comprised of leasehold improvements, computer and office equipment and software licenses.

We review the valuation of our goodwill in the fourth quarter of each fiscal year, or on an interim basis, if it is considered more likely than not that an impairment loss has been incurred. Our valuation methodology for assessing impairment requires us to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. We operate in highly competitive environments, and our projections of future operating results and cash flows may vary significantly from actual results. If the assumption that we use in preparing our estimates of our reporting units projected performance for purposes of impairment testing differs materially from actual future results, we may record impairment changes in the future and our operating results may be adversely affected. We completed our annual impairment review of goodwill as of July 31, 2009, and concluded that goodwill was not impaired. No impairment indicators have arisen since that date to cause us to perform an impairment assessment since that date. At October 31, 2009 and July 31, 2009, the carrying value of goodwill and other intangible assets totaled $87.1 million and $88.7 million, respectively. Historically, our estimates have been consistent with actual results.

Impairment costs. We generally record impairments related to underutilized real estate leases. Generally, whenever we determine that a facility will no longer be utilized or generate any future economic benefit, we record an impairment loss in the period such determination is made. As of October 31, 2009, our accrued lease-impairment balance totaled approximately $0.3 million, all of which represents amounts that are committed under remaining contractual obligations. These contractual obligations principally represent future obligations under non-cancelable real estate leases. Impairment estimates relating to real estate leases involve the consideration of a number of factors, including potential sublet-rental rates, the estimated vacancy period for the property, brokerage commissions and certain other costs. Estimates relating to potential sublet rates and expected vacancy periods are most likely to have a material impact on our results of operations if actual amounts differ significantly from estimates. These estimates involve judgment and uncertainties, and the settlement of these liabilities could differ materially from recorded amounts. As such, in the course of making such estimates, we often use third-party real estate professionals to assist us in our assessment of the marketplace for purposes of estimating sublet rates and vacancy periods. Historically, our estimates have been consistent with actual results. A 10% to 20% unfavorable settlement of our remaining liabilities for impaired facilities, as compared to our current estimates, would decrease our income from operations for the fiscal quarter ended October 31, 2009, by approximately $0.03 million to $0.07 million.

Stock-Based Compensation. SFAS No. 123(R), *Share-Based Payment*, which is now part of FASB ASC 718, *Compensation Stock Compensation* (**FASB ASC 718**), requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statement of operations. FASB ASC 718 superseded our previous accounting under the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation.* As permitted by SFAS No. 123, we had measured options granted before August 1, 2005, as compensation cost in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise of the options, net proceeds, including tax benefits realized, are credited to equity.

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest during the period, reduced for estimated forfeitures. FASB ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In our pro forma information required under FASB ASC 718 for the periods before August 1, 2005, we established estimates for forfeitures. Stock-based compensation expense recognized in our consolidated statements of operations for the fiscal years ended July 31, 2008 and 2007, included compensation expense for stock-based payment awards granted before, but unvested as of, July 31, 2005, based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS No. 123, and compensation expense for the stock-based payment awards granted after July 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of FASB ASC 718.

In accordance with FASB ASC 718, we use the Black-Scholes Model. In accordance with this model, we must make certain estimates to determine the grant-date fair value of equity awards. These estimates can be complex and subjective and include the expected volatility of our common stock, our dividend rate, a risk-free interest rate, the expected term of the equity award and the expected forfeiture rate of the equity award. Any changes in these assumptions may materially affect the estimated fair value of our recorded stock-based compensation.

Income Taxes. Income taxes are accounted for under the provisions of SFAS No. 109, *Accounting for Income Taxes*, which is now part of FASB ASC 740, *Income Taxes* (**FASB ASC 740**), using the asset-and-liability method, whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial-statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year 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. FASB ASC 740 also requires that the deferred tax assets be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the recorded deferred tax assets will not be realized in future periods. This methodology is subjective and requires significant estimates and judgments in the determination of the recoverability of deferred tax assets and in the calculation of certain tax liabilities. At October 31, 2009 and 2008, respectively, a valuation allowance has been recorded against the gross deferred tax assets since we believe that, after considering all the available objective evidence positive and negative, historical and prospective, with greater weight given to historical evidence it is more likely than not that these assets will not be realized. In each reporting period, we evaluate the adequacy of our valuation allowance on our deferred tax assets. In the future, if we can demonstrate a consistent trend of pre-tax income, then, at that time, we may reduce our valuation allowance accordingly. Our federal and state NOL carryforwards at October 31, 2009, totaled $189.7 million. A 5% reduction in our current valuation allowance against these federal and state NOL carryforwards would result in an income-tax benefit of approximately $3.8 million for the reporting period.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several tax jurisdictions. We are periodically reviewed by domestic and foreign tax authorities regarding the amount of taxes due. These reviews include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various filing positions, we may record estimated reserves for exposures. Based on our evaluation of current tax positions, we believe that we have appropriately accrued for exposures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not enter into financial instruments for trading purposes. We have not used derivative financial instruments or derivative commodity instruments in our investment portfolio, nor have we entered into hedging transactions. However, under our senior secured credit facility, we are required to maintain interest-rate protection to effectively limit the unadjusted variable component of the interest costs of our facility with respect to not less than 50% of the principal amount of all Indebtedness, as defined, at a rate that is acceptable to the lending group s agent. Our exposure to market risk associated with risk-sensitive instruments entered into for purposes other than trading purposes is not material. We currently have limited foreign operations and therefore face no material foreign-currency-exchange-rate risk. Our interest-rate risk at October 31, 2009, was limited mainly to LIBOR on our outstanding loan under our senior secured credit facility. At October 31, 2009, we had no open derivative positions with respect to our borrowing arrangements. Because our loan s LIBOR-related rate is currently fixed above LIBOR, a hypothetical 100-basis-point increase in LIBOR would have resulted in no increase in our interest expense under our senior secured credit facility for the three months ended October 31, 2009.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. Our management, with the participation of our chief executive and financial officers, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our chief executive and financial officers concluded that our disclosure controls and procedures were, as of the end of the period covered by this report, effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our chief executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting. There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the fiscal quarter to which this report relates, which change has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

Item 1. Legal Proceedings

IPO Securities Litigation

In 2001, lawsuits naming more than 300 issuers and over 50 investment banks were filed in the U.S. District Court for the Southern District of New York (the **Court**) for all pretrial purposes (the **IPO Securities Litigation**). Between June 13, 2001, and July 10, 2001, five purported class-action lawsuits seeking monetary damages were filed against us; Joel B. Rosen, our then-chief executive officer; Kenneth W. Hale, our then-chief financial officer; Robert E. Eisenberg, our then president; and the underwriters of our initial public offering of October 22, 1999. On September 6, 2001, the Court consolidated the five similar cases and a consolidated, amended complaint was filed on April 19, 2002 on behalf of all persons who acquired shares of our common stock between October 22, 1999, and December 6, 2000 (the **Class-Action Litigation**), against us and Messrs. Rosen, Hale and Eisenberg (collectively, the **NaviSite Defendants**) and against underwriter defendants Robertson Stephens (as successor-in-interest to BancBoston), BancBoston, J.P. Morgan (as successor-in-interest to Hambrecht & Quist), Hambrecht & Quist and First Albany. The plaintiffs uniformly alleged that all defendants, including the NaviSite Defendants, violated Sections 11 and 15 of the Securities Act, Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 by issuing and selling our common stock in the offering without disclosing to investors that some of the underwriters, including the lead underwriters, allegedly had solicited and received undisclosed agreements from certain investors to purchase aftermarket shares at pre-arranged, escalating prices and also to receive additional commissions and/or other compensation from those investors. Plaintiffs did not specify the amount of damages they sought in the Class-Action Litigation. On April 2, 2009, a stipulation and agreement of settlement among the plaintiffs, issuer defendants (including any present or former officers and directors) and underwriters was submitted to the Court for preliminary approval (the **Global Settlement**). Pursuant to the Global Settlement, all claims against the NaviSite Defendants would be dismissed with prejudice and our pro-rata share of the settlement consideration would be fully funded by insurance. By Opinion and Order dated October 5, 2009, after conducting a settlement fairness hearing on September 10, 2009, the Court granted final approval to the Global Settlement and directed the clerk to close each of the actions comprising the IPO Securities Litigation, including the Class-Action Litigation. A proposed final judgment in the Class-Action Litigation was filed on November 23, 2009, but has not yet been entered by the Court. Any appeal of the Court s final approval of the Global Settlement must be filed within 30 days of the date judgment is entered.

The settlement remains subject to numerous conditions, including the resolution of several appeals that have been filed, and there can be no assurance that the Court s approval of the Global Settlement will be upheld in all respects upon appeal. We believe that the allegations against us are without merit, and, if the litigation continues, we intend to vigorously defend against the plaintiffs claims. Because of the inherent uncertainty of litigation, and because the settlement remains subject to numerous conditions and potential appeals, we are not able to predict the possible outcome of the suits and their ultimate effect, if any, on our business, financial condition, results of operations or cash flows.

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On October 12, 2007, a purported NaviSite shareholder filed a complaint for violation of Section 16(b) of the Exchange Act, which provision prohibits short-swing trading, against two of the underwriters of the public offering at issue in the Class-Action Litigation. The complaint is pending in the U.S. District Court for the Western District of Washington (the **District Court**) and is captioned Vanessa Simmonds v. Bank of America Corp., et al. Plaintiff seeks the recovery of short-swing profits from the underwriters on behalf of the Company, which is named only as a nominal defendant and from which no recovery is sought. Simmonds complaint was dismissed without prejudice by the District Court on the grounds that she had failed to make an adequate demand on us before filing her complaint. Because the District Court dismissed the case on the grounds that it lacked subject-matter jurisdiction, it did not specifically reach the issue of whether the plaintiff s claims were barred by the applicable statute of limitations. However, the District Court also granted the underwriter defendants joint motion to dismiss with respect to cases involving other issuers, holding that the cases were time-barred because the issuers shareholders had notice of the potential claims more than five years before filing suit.

The plaintiff filed a notice of appeal with the Ninth Circuit Court of Appeals on April 10, 2009, and the underwriter defendants filed a cross-appeal, asserting that the dismissal should have been with prejudice. The appeal and cross-appeal are fully briefed. We do not expect that this claim will have a material impact on our financial position or results of operations.

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Other litigation

Covario, Inc.

On September 22, 2009, we filed an arbitration demand with the American Arbitration Association, seeking approximately $1,300,000 from Covario, Inc., for improper termination of a Master Service Agreement (**MSA**) and for failure to pay fees due and owing under the MSA. On October 7, 2009, Covario filed a counterclaim against us, seeking damages in excess of $10 million. Covario asserted six causes of action: (i) breach of contract, (ii) misrepresentation, (iii) fraud, (iv) violation of Chapter 93A of the Massachusetts Unfair Business Practices Act, including statutory triple damages, (v) unjust enrichment and (vi) declaratory judgment, seeking a declaration that we materially breached the MSA and that Covario properly terminated the MSA.

On October 29, 2009, we responded to the counterclaim, objecting to Covario s damage claims in excess of $160,000 based on a variety of contractual provisions, including a limitation of liability and a cap on Covario s damages at the amount paid during the 12 months preceding a claim. We believe that the allegations against us are without merit, and, if the litigation continues, we intend to vigorously defend against Covario s claims. Because of the inherent uncertainty of litigation, we are not able to predict the possible outcome of the arbitration and its ultimate effect, if any, on our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Part I, Item 1A. Risk Factors, in our annual report on Form 10-K for the fiscal year ended July 31, 2009. The risks described in our annual report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 5. Other Information

During the quarter ended October 31, 2009, we made no material changes to the procedures by which stockholders may recommend nominees to our board of directors, as described in our most recent proxy statement.

Item 6. Exhibits

The exhibits listed in the exhibit index immediately preceding such exhibits are filed with, or incorporated by reference in, this report.

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SIGNATURE

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, thereunto duly authorized.

December 10, 2009	NAVISITE, INC.
	By: /s/ James W. Pluntze James W. Pluntze (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
10.1	Amendment No. 1 to Separation Agreement dated as of December 7, 2008, by and between the Registrant and Sumeet Sabharwal.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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text-align: left" ROWSPAN=1> Third Quarter $15.95 $12.39 $5.96 $4.27 Second Quarter $13.74 $8.50 $5.00 $2.05 First Quarter $10.73 $9.16 $2.75 $2.20 Fiscal 2014:
Fourth Quarter $12.00 $9.80 $3.44 $2.10 Third Quarter $12.29 $10.70 $4.15 $3.06 Second Quarter $15.00 $10.20 $4.85 $2.20 First Quarter $11.15 $8.50 $2.95 $1.08 Fiscal 2013:
Fourth Quarter* $10.40 $8.15 $1.45 $0.45 Third Quarter $10.23 $9.93 $0.60 $0.18 Second Quarter $10.00 $9.90 $0.25 $0.15 First Quarter $10.00 $9.87 $0.27 $0.13

* Prior to consummation of the Merger, our fiscal year end was February 28th. We changed our fiscal year end to December 31st in connection with the Merger and all periods are stated on a December 31st year end.

Holders

As of September 30, 2015, there were 315 holders of record of our ordinary shares and 15 holders of record of our Warrants.

Dividends

We have not paid any dividends on our ordinary shares to date. On April 14, 2015, our Board of Directors authorized the payment of regular quarterly dividends to holders of our ordinary shares at a quarterly rate of $0.125 per share (or $0.50 per share on an annual basis). The first quarterly dividend payment will be made to shareholders of record 15 days after the end of the Offer.

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Source and Amount of Funds

Because this transaction is an offer to holders to exchange their existing Warrants for our ordinary shares, there is no source of funds or other cash consideration being paid by us to, or to us from, those tendering Warrant holders pursuant to the Offer. We estimate that the total amount of cash required to complete the transactions contemplated by the Offer, including the payment of any fees, expenses and other related amounts incurred in connection with the transactions will be approximately $60,000. We expect to have sufficient funds to complete the transactions contemplated by the Offer and to pay fees, expenses and other related amounts from our cash on hand.

Fees and Expenses

We have retained Continental Stock Transfer & Trust Company as depositary and exchange agent in connection with the Offer. We will pay Continental Stock Transfer & Trust reasonable and customary compensation for its services in connection with the Offer will reimburse its reasonable out-of-pocket expenses and will indemnify it against certain liabilities and expenses, including certain liabilities under the U.S. federal securities laws.

We will reimburse brokers, dealers, commercial banks and trust companies and other nominees, upon request, for customary clerical and mailing expenses incurred by them in forwarding offering materials to their customers. Except as set forth above, we will not pay any fees or commissions to any broker, dealer or other person for soliciting tenders of Warrants pursuant to the Offer.

Transactions and Agreements Concerning Our Securities

Other than as set forth below and in the sections of this Prospectus/Offer to Exchange entitled *Certain Relationships and Related Person Transactions* and *Description of Securities* beginning on pages 53 and 56, respectively, and as set forth in our third amended and restated memorandum and articles of association, there are no agreements, arrangements or understandings between our company, or any of our directors or executive officers, and any other person with respect to our securities that are the subject of the Offer.

Agreements Relating to our Initial Public Offering

As described in the section of this Prospectus/Offer to Exchange entitled *Description of Securities* *Registration Rights* beginning on page 58, in connection with our initial public offering, we entered into a registration rights with our initial shareholders with respect to their securities held at the time of our initial public offering.

Agreements Relating to the Merger

At the closing of the Merger, 2,251,853 of the 4,200,000 public shares sold in our IPO were converted to cash at a conversion price of approximately $10.18 per share, or an aggregate of approximately $22.9 million of the approximately $42.7 million held in the trust account. As consideration for the Merger, we issued Energy Holding Corporation, a holding company and sole shareholder of Tecnoglass Holding, of which former shareholders of TG and ES are the sole shareholders, an aggregate of 20,567,141 ordinary shares, or approximately 87% of the outstanding ordinary shares. Pursuant to the agreement and plan of reorganization, we also issued to Energy Holding Corporation. an additional 500,000 ordinary shares upon the achievement of specified EBITDA targets in the fiscal year ended December 31, 2014. Additionally, Energy Holding Corp. also has the contractual right to receive an additional 2,500,000 ordinary shares, to be released upon the attainment of specified share price targets or targets based on our

EBITDA in the fiscal years ending December 31, 2015 or 2016.

As described in the section of this Prospectus/Offer to Exchange entitled *Description of Securities Registration Rights* beginning on page 58, at the closing of the Merger, we entered into a registration rights with the former shareholders of TG and ES with respect to the shares of our ordinary shares they received in the Merger.

Securities Transactions

Except as set forth in the section of this Prospectus/Offer to Exchange entitled *Certain Relationships and Related Person Transactions* beginning on page 53, neither we, nor any of our directors, executive

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officers or controlling persons, or any executive officers, directors, managers or partners of any of our controlling persons, has engaged in any transactions in our Warrants in the last 60 days.

Plans

Except as described in the sections of this Prospectus/Offer to Exchange entitled *Risk Factors*, *The Offer*, *Information Concerning Our Company*, *Certain Relationships and Related Person Transactions* and *Description of Securities* beginning on pages 5, 17, 33, 53 and 56, respectively, neither the Company, nor any of its directors, executive officers, or controlling persons, or any executive officers, directors, managers or partners of its controlling persons, has any plans, proposals or negotiations that relate to or would result in:

- any extraordinary transaction, such as a merger, reorganization or liquidation, involving us or any of our subsidiaries;
- any purchase, sale or transfer of a material amount of assets of us or any of our subsidiaries;
- any material change in our present dividend rate or policy, or our indebtedness or capitalization;
- any change in our present board of directors or management, including, but not limited to, any plans or proposals to change the number or the term of directors or to fill any existing vacancies on the board or to change any material term of the employment contract of any executive officer;
- any other material change in our corporate structure or business;
- any class of our equity securities to be delisted from the Nasdaq Global Market;
- any class of our equity securities becoming eligible for termination of registration under section 12(g)(4) of the Exchange Act;
- the suspension of our obligation to file reports under Section 15(d) of the Exchange Act;
- the acquisition or disposition by any person of our securities; or
- any changes in our third amended and restated memorandum and articles of association or other governing instruments or other actions that could impede the acquisition of control of our company.

Registration under the Exchange Act

The Warrants currently are registered under the Exchange Act. This registration may be terminated upon application by us to the SEC if there are fewer than 300 record holders of the Warrants, provided we obtain the consent of the representative of the underwriters for our initial public offering of the Units as required pursuant to the underwriting agreement for such offering. We currently do not intend to deregister the Warrants, if any, that remain outstanding after completion of the Offer. Notwithstanding any termination of the registration of our Warrants, we will continue to be subject to the reporting requirements under the Exchange Act as a result of the continuing registration of our ordinary shares.

Accounting Treatment

The exchange of the Warrants will be accounted for as an ordinary stock issuance. We will record the aggregate par value of the ordinary shares issued in the exchange as a credit to the capital stock account. Offer-related costs, which include advisory, legal, accounting, depositary and other professional or consulting fees, will be expensed in the period incurred.

The Company previously classified the Warrants as a liability at fair value as the terms of the warrant agreement are such that the instruments do not meet the criteria for equity treatment. The Exchange Offer does not modify any terms of the warrant agreements or the current accounting treatment for the un-exchanged warrants. For the exchanged warrants, the difference between the actual fair value of the warrant liability as of the date of their exchange and the actual fair value of the ordinary shares issued is recorded as a gain/loss to the income statement.

Absence of Appraisal or Dissenters Rights

Holders of the Warrants do not have any appraisal or dissenters rights under applicable law in connection with the Offer.

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Material U.S. Federal Income Tax Consequences

General

The following description summarizes the material U.S. federal income tax consequences of the receipt of ordinary shares in exchange for the Warrants pursuant to the Offer and the ownership and disposition of the ordinary shares. This description assumes that holders hold the Warrants, and will hold the ordinary shares received upon exchange of the Warrants, as capital assets (generally, property held for investment). This description does not address all of the tax consequences that might be relevant to a holder s particular circumstances or to holders that may be subject to special tax rules, such as banks or other financial institutions, insurance companies, real estate investment trusts, regulated investment companies, tax exempt organizations, dealers in securities, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons who hold ordinary shares or Warrants as part of a straddle, hedging transaction, conversion transaction, or other similar integrated transaction for U.S. federal income tax purposes, or U.S. holders (as defined below) that have a functional currency other than the U.S. dollar.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds ordinary shares or Warrants, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the nature of the activities of the partnership. A holder that is a partnership, and the partners in such partnerships, should consult its own tax advisors regarding the tax consequences of the receipt of ordinary shares in the exchange and the ownership and disposition of ordinary shares received in the exchange.

This description does not address the tax consequences arising under the laws of any foreign, state, or local tax jurisdiction. Moreover, except to the extent specifically set forth below, this description does not address the U.S. federal estate and gift tax, or alternative minimum tax, or other non-income tax consequences of the ownership and disposition of ordinary shares received upon exchange of the Warrants.

This description is based on the Internal Revenue Code of 1986, as amended (the Code), existing and proposed Treasury Regulations promulgated thereunder, judicial decisions, published positions of the Internal Revenue Service (the IRS), and other applicable authorities, each as in effect on the date hereof. These authorities are subject to change, possibly with retroactive effect, or differing interpretations by the IRS or a court, which could affect the tax consequences described herein. We have not obtained, and have no plans to request, a ruling from the IRS with respect to any of the U.S. federal income tax consequences described below, and as a result, there can be no assurance that the IRS or the courts will agree with any of the conclusions stated in this description.

This description is for general information only and is not tax advice. It is not intended to constitute a complete description of all tax consequences for holders relating to the exchange of Warrants for our ordinary shares or relating to the ownership and disposition of our ordinary shares. You are urged to consult with your tax advisor regarding the U.S. federal income tax consequences of the receipt of ordinary shares in exchange for the Warrants, and of the ownership and disposition of such ordinary shares, applicable in your particular situation, as well as any consequences under the federal estate or gift tax, the federal alternative minimum tax, or under the tax laws of any state, local, foreign, or other taxing jurisdiction.

Tax Consequences to U.S. Holders

Subject to the limitations stated above, the following description addresses certain material U.S. federal income tax consequences of the receipt of ordinary shares in exchange for the Warrants, and of the ownership and disposition of our ordinary shares, that are expected to apply if you are a U.S. holder of the Warrants or our ordinary shares. For this purpose, you are a U.S. holder if you are:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any State thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

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a trust (i) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in Section 7701(a)(30) of the Code) have the authority to control all substantial decisions of the trust, or (ii) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Exchange of Warrants for Ordinary shares

Your exchange of Warrants for our ordinary shares pursuant to the Offer should be treated as a recapitalization pursuant to which (i) you should not recognize any gain or loss on the exchange of Warrants for shares of our ordinary shares, (ii) your aggregate tax basis in the shares received in the exchange should equal your aggregate tax basis in your Warrants surrendered in the exchange, and (iii) your holding period for the shares received in the exchange should include your holding period for the surrendered Warrants. Special tax basis and holding period rules apply to holders that acquired different blocks of Warrants at different prices or at different times. You should consult your tax advisor as to the applicability of these special rules to your particular circumstances.

If you exchange Warrants for our ordinary shares pursuant to the Offer, and if you hold five percent or more of our ordinary shares prior to the exchange, or if you hold Warrants and other securities of ours prior to the exchange with a tax basis of $1 million or more, you will be required to file with your U.S. federal income tax return for the year in which the exchange occurs a statement setting forth certain information relating to the exchange (including the fair market value, prior to the exchange, of the Warrants transferred in the exchange and your tax basis, prior to the exchange, in our ordinary shares or securities), and to maintain permanent records containing such information.

If you do not tender your Warrants in the Offer, you will not have any U.S. federal income tax consequences from declining to exchange such Warrants for our ordinary shares pursuant to the Offer.

Ownership and Disposition of Ordinary Shares

Distributions of cash or property that we pay on our ordinary shares will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles) and will be includible in your gross income as ordinary dividend income when actually or constructively received by you. Distributions in excess of our current and accumulated earnings and profits will be treated first as a tax-free return of capital to the extent of your tax basis in our ordinary shares, and thereafter will be treated as capital gain from the sale or exchange of the ordinary shares. If you are a non-corporate U.S. holder, dividends you receive with respect to our ordinary shares are eligible for U.S. federal income taxation at the rates generally applicable to long-term capital gains for individuals, provided you satisfy applicable holding period and other requirements. If you are a corporate U.S. holder, dividends you receive with respect to our ordinary shares will be taxable at regular rates and will not be eligible for the dividends received deduction generally allowed to domestic corporations in respect of dividends received from other domestic corporations.

Upon a sale or other taxable disposition of our ordinary shares, you generally will recognize capital gain or loss equal to the difference between (i) the amount of cash and the fair market value of any property you receive on the disposition and (ii) your adjusted tax basis for the ordinary shares. The capital gain or loss will be long-term capital gain or loss if you held the ordinary shares more than one year. The deductibility of capital losses is subject to limitations.

Tax on Net Investment Income

A 3.8% Medicare contribution tax will generally apply to all or some portion of the net investment income of a U.S. holder who is an individual with adjusted gross income that exceeds a threshold amount. In the case of individuals, a

3.8% tax is imposed for each taxable year on the lesser of (a) net investment income for the year or (b) the modified adjusted gross income for such year in excess of a threshold amount ($250,000 if married filing jointly or if considered a surviving spouse for federal income tax purposes, $125,000 if married filing separately, and $200,000 in other cases). For these purposes, dividends received with respect to our ordinary shares, and gains or losses realized from the taxable disposition of our ordinary shares, will generally be taken into account in computing your net investment income.

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Information Reporting and Backup Withholding

In general, dividends you receive with respect to our ordinary shares, and amounts you receive with respect to a sale or other disposition of our ordinary shares, are reported to the IRS and to you, unless you are an exempt payee (such as a corporation) and the payment is not subject to backup withholding. Such dividends and other amounts may be subject to backup withholding (at a rate of 28%), and subject to related information reporting with respect to otherwise exempt payees, unless you provide to us (i) your correct taxpayer identification number and certification (on Form W-9) that you are not subject to backup withholding, or (ii) proof that you are an exempt payee. Any amounts withheld from a payment under the backup withholding rules will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided you timely furnish the required information or returns to the IRS.

Tax Consequences to Non-U.S. Holders

Subject to the limitations stated above, the following description addresses certain material U.S. federal income tax consequences of the receipt of ordinary shares in exchange for the Warrants, and of the ownership and disposition of our ordinary shares, that are expected to apply if you are a non-U.S. holder of the Warrants or our ordinary shares. For this purpose, you are a non-U.S. holder if you are an individual, corporation, estate, or trust that is not a U.S. holder as defined above. Special rules may apply to certain non-U.S. holders such as controlled foreign corporations, passive foreign investment companies, individuals present in the United States for 183 days or more in the taxable year of disposition (but who are not U.S. residents) or, in certain circumstances, individuals who are former U.S. citizens or residents.

Exchange of Warrants for Ordinary Shares

Your exchange of Warrants for our ordinary shares pursuant to the Offer should have the same tax consequences as described above for U.S. holders. Assuming you are not engaged the conduct of a trade or business within the U.S., you should not be required to make any U.S. federal income tax filings solely on account of the exchange of Warrants for our ordinary shares.

Ownership and Disposition of Ordinary shares

Dividends (including constructive dividends) paid or deemed paid to a non-U.S. holder in respect to our ordinary shares generally will not be subject to U.S. federal income tax, unless the dividends are effectively connected with the non-U.S. holder s conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains in the United States).

In addition, a non-U.S. holder generally will not be subject to U.S. federal income tax on any gain attributable to a sale or other disposition of our ordinary shares unless such gain is effectively connected with its conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base that such holder maintains in the United States) or the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of sale or other disposition and certain other conditions are met (in which case, such gain from United States sources generally is subject to tax at a 30% rate or a lower applicable tax treaty rate).

Dividends and gains that are effectively connected with the non-U.S. holder s conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base in the United States) generally will be subject to U.S. federal income tax (but not the Medicare contribution tax) at the same regular U.S. federal income tax rates applicable to a comparable U.S. Holder and, in the case of a non-U.S. holder that is a corporation for U.S. federal income tax purposes, may also be subject to an additional branch profits tax at a 30% rate or a lower applicable tax treaty rate.

Information Reporting and Backup Withholding

In general, dividends you receive with respect to our ordinary shares, and any U.S. federal withholding tax withheld with respect to those dividends, are reported to the IRS and to you, regardless of whether withholding is reduced or eliminated by an applicable income tax treaty. Copies of this information reporting may also be provided under the provisions of a specific tax treaty, or under the provisions of a tax information

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exchange agreement, to the tax authorities in the country in which you reside or are established. Amounts you receive from of a sale or other disposition of our ordinary shares effected through the U.S. office of any broker (as defined in applicable Treasury regulations) or from a sale or other disposition conducted outside the United States through certain U.S.-related brokers, are also reported to the IRS and to you.

You will generally be exempt from backup withholding on dividends and other amounts you receive with respect to our ordinary shares if you provide a certification (on an applicable IRS Form W-8) or proof of exempt status as described above with respect to U.S. federal income tax withholding. Any amounts withheld under the backup withholding rules from a payment will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided you timely furnish the required information or returns to the IRS.

Foreign Account Reporting and Withholding

A U.S. federal withholding tax of 30% may apply to dividends on, and the gross proceeds of a sale or other disposition of, our ordinary shares, paid to a foreign financial institution (as defined in Section 1471 of the Code), unless such institution enters into an agreement with the U.S. government to collect and verify information regarding holders of accounts maintained by such institution, to report information with respect to U.S. accounts maintained by such institution, and to withhold on certain passthru payments made by such institution. In general, U.S. accounts are depositary and custodial accounts maintained by the foreign financial institution, and certain equity and debt interests in such institution, which are held by U.S. persons or U.S. owned foreign entities. A U.S. federal withholding tax of 30% may also apply to dividends and the gross proceeds of a sale or other disposition of our ordinary shares paid to a non-financial foreign entity unless the foreign entity provides the withholding agent either (i) a certification that the foreign entity does not have any substantial U.S. owners or (ii) identifying information for each substantial U.S. owner. A substantial U.S. owner is generally defined as any U.S. person, other than a publicly traded corporation or its affiliates and certain other specified exempt persons, owning more than 10% of the foreign entity. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes.

Depositary

The depositary and exchange agent for the Offer is:

Continental Stock Transfer & Trust Company
17 Battery Place
New York, New York 10004
Attention: Corporate Actions Department
Facsimile: (212) 616-7610

Additional Information; Amendments

We have filed with the SEC a Tender Offer Statement on Schedule TO, of which this Prospectus/Offer to Exchange is a part. We recommend that Warrant holders review the Schedule TO, including the exhibits, and our other materials that have been filed with the SEC before making a decision on whether to accept the Offer.

We will assess whether we are permitted to make the Offer in all jurisdictions. If we determine that we are not legally able to make the Offer in a particular jurisdiction, we will inform Warrant holders of this decision. The Offer is not made to those holders who reside in any jurisdiction where the offer would be unlawful.

Our board of directors recognizes that the decision to accept or reject this Offer is an individual one that should be based on a variety of factors and Warrant holders should consult with personal advisors if they have questions about their financial or tax situation.

We are subject to the information requirements of the Exchange Act and in accordance therewith file and furnish reports and other information with the SEC. All reports and other documents we have filed or furnished with the SEC, including the registration statement on Form S-4 relating to the Offer, or will file or furnish with the SEC in the future, can be accessed electronically on the SEC s website at *www.sec.gov*.

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If you have any questions regarding the Offer or need assistance, you should contact the information agent for the Offer. You may request additional copies of this document, the Letter of Transmittal or the Notice of Guaranteed Delivery from the information agent. All such questions or requests should be directed to:

Devin Sullivan
The Equity Group
800 3rd Avenue, 36th Floor
New York, NY 10022
Phone: 212.371.8660
Fax: 212.421.1278
info@equityny.com

We will amend our offering materials, including this Prospectus/Offer to Exchange, to the extent required by applicable securities laws to disclose any material changes to information previously published, sent or given by us to Warrant holders in connection with the Offer.

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INFORMATION CONCERNING OUR COMPANY

Overview

We were originally formed under the name Andina Acquisition Corporation for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, recapitalization, reorganization or other similar business combination with one or more businesses or entities. On March 22, 2012, we consummated our initial public offering, and on December 20, 2013, we consummated our initial business combination, whereby our wholly-owned subsidiary merged with and into Tecnoglass Holding. As a result of this transaction, Tecnoglass Holding and its indirect, wholly-owned subsidiaries, TG and ES, became our direct and indirect subsidiaries. Accordingly, the business of Tecnoglass Holding and its subsidiaries became our business. We are now a holding company operating through our direct and indirect subsidiaries.

The transaction with Tecnoglass Holding was accounted for as a reverse acquisition with Tecnoglass Holding being considered the accounting acquirer in the transaction. For accounting and financial purposes, we were treated as the acquired company, and Tecnoglass Holding was treated as the acquiring company. Accordingly, historical information, including historical financial information and the historical description of our business, for periods and dates prior to December 20, 2013, include information for Tecnoglass Holding and its subsidiaries.

General

We are a leading manufacturer of hi-spec, architectural glass and windows for the western hemisphere residential and commercial construction industries, operating through our direct and indirect subsidiaries. Headquartered in Barranquilla, Colombia, we operate out of a 2.3 million square foot vertically-integrated, state-of-the-art manufacturing complex that provides easy access to the Americas, the Caribbean, and the Pacific.

We sell our products to more than 800 customers in North, Central and South America. The United States accounted for approximately 51% and 36% of our combined revenues in 2014 and 2013, while Colombia accounted for approximately 41% and 56%, and Panama for approximately 6% and 6% of our combined revenues in those years. Our tailored, high-end products are found on some of the world s most distinctive properties, including the El Dorado Airport (Bogota), Imbanaco Medical Center (Cali), Brickell City Centre (Miami), and The Woodlands (Houston).

TG. TG is a leading manufacturer of a variety of glass products installed primarily in commercial and residential buildings, including tempered safety, double thermo-acoustic and laminated glass. TG products are installed in hotels, residential buildings, commercial and corporate centers, universities, airports and hospitals in a variety of applications such as floating facades, curtain walls, windows, doors, handrails, interior and bathroom spatial dividers. Approximately 43% of TG products are supplied to ES for installation in various products that ES manufactures, with the balance of TG products being sold to customers throughout North, Central and South America.

TG also produces aluminum products such as profiles, rods, bars, plates and other hardware used in the manufacture of windows. In 2007, TG established its Alutions plant in Barranquilla, Colombia for extrusion, smelting, painting and anodizing processes, and for exporting, importing and marketing aluminum products. The Alutions plant contributes more than 90% of the raw materials needed for production of TG aluminum products.

Glass Magazine ranked TG as the second largest glass fabricator serving the U.S. market in 2013. We believe that it is the leading glass transformation company in Colombia, capturing 40% of the market share in the country.

ES. ES is a leader in the production of high-end windows, with more than 29 years of experience in the glass and aluminum structure assembly market in Colombia. ES designs, manufactures, markets and installs architectural systems for high, medium and low rise construction, glass and aluminum windows and doors, office dividers and interiors, floating facades and commercial display windows.

Since 2004, we have a strategic commercial relationship with ES Windows LLC (ESW LLC), a Florida-based company partially owned by Christian T. Daes and José M. Daes, who are also our executive

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officers and directors. ESW LLC is a member of the American Architectural Manufacturers Association, a technical information center for the architecture industry with highest standards. ESW LLC sends project specifications and orders from its clients to ES, and in turn, receives pricing quotes from ES which are conveyed to the client. ESW LLC does not install any of our products. Our transactions with ESW LLC are further disclosed in the notes to our financial statements appearing elsewhere in this Annual Report.

Based on our knowledge of the South Florida construction market, we believe that ES participated in 80% of the high rise building projects in South Florida in the years leading up to the 2008 economic crises through the sale of its products to RC Aluminum Industries (RC Aluminum). ES also possesses the requisite permits, known as Notices of Acceptance (NOA) to commercialize hurricane windows in Miami-Dade County, Florida, one of the most demanding certifications in the world for manufacturers of windows and window frames. In 2014, we were awarded a contract from one of the largest real estate development firms in the United States to manufacture and supply windows for 10 multi-dwelling residential buildings to be constructed in South Florida for approximately $40 million.

ES has expanded its U.S. sales outside of the Florida market for windows, into the high-tech market for curtain walls, a product that is in high demand and represents a new trend in architecture, and floating facades. Due to the sophistication of these new products, ES believes that sales of curtain walls will generate higher margins as compared to traditional window frames from walls or floor to ceiling windows. Curtain walls produced by ES are composed of high performance materials that are produced by Alutions, the aluminum smelting plant, and TG with state of the art technology.

In 2014, we established two entities in South Florida, Tecno LLC and Tecno RE, to acquire manufacturing and warehousing facilities, customer lists and exclusive design permits in order to support sales growth in the United States. We will continue to manufacture our products at our facilities in Barranquilla, Colombia while performing select manufacturing and light assembly in the U.S. to enhance client service and create certain cost efficiencies.

In Panama, ES sells products primarily to companies participating in large construction projects in the most exclusive areas of Panama City. For example, ES products were supplied in the construction of the tallest building in Central and South America, The Point, as well as in the construction of other modern hotels in the region such as Megapolis and The Trump. Based on ES s knowledge of the construction market in Central America, we believe that it has also entered into one of the highest value window supply contracts in the hotel industry in Central America for the Soho Plaza.

Competitive Strengths

Vertical Integration

We believe we are unique in vertically integrating the purchase of raw materials, the manufacture of glass and aluminum products and the subsequent production of customized glass and windows for architectural and industrial settings. By vertically integrating these functions, we are able to price our products competitively while maintaining strict quality control measures to guarantee the high quality of our products. Additionally, we benefit from significant advantages in efficiency and time-to-market for new or customized products. This vertically integrated model provides attractive margins with significant operating leverage.

Innovation

We have made significant investments in machinery and equipment in order to utilize the latest technology on our production lines, including a recently completed approximately $56.6 million capital investment in land, warehouses and state-of-the-art glass making equipment thereby expanding our manufacturing capacity. In August 2014, we entered into a contract to purchase equipment from Magnetron Sputter Vacuum Deposition to produce soft coated low emissivity glass as part of our improvements plan in 2015 and 2016. The investment for this project is estimated at $45 million for the equipment and facilities.

Additionally, we purchased two glass laminating and tempering furnaces that use new technologies to produce tempered glass with no distortion using air cushion technology and to produce curved glass in a broad range of easily modifiable curvatures.

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For certain of our products, we offer DuPont Sentryglass® laminated glass interlayers which are recognized as industry-leading laminated glass solutions with five times the resistance strength of other materials available on the market. We also use a laminator and jumbo tempering oven capable of producing extra-large slabs of laminated glass which are sought after in the high-end window market. These investments in machinery and equipment, together with our highly trained labor force, allow us to offer state-of-the-art custom designed products quickly modified to meet customer demands. We also have a staff of specialists dedicated to product design in order to meet customer specifications.

Superior Customer Service

In addition to manufacturing high quality products, our value proposition to our customers is based on industry-leading lead times, on-time delivery and superior after-sale support. Through the coordinated efforts of our sales teams, product specialists, and field service teams, we deliver high quality service to our customers, from the time the initial order is placed through the delivery and installation of our products. By providing an efficient flow of product from order through delivery, our manufacturing processes allow us to deliver made-to-order products consistently on time, which we believe is an important competitive strength.

Management Experience

José Daes, our chief executive officer, and Christian Daes, our chief operating officer, have more than 30 and 20 years of industry experience, respectively. In addition, our executive management teams have worked together for many years at our operating subsidiaries. This long tenure in the industry, and as a team, has enabled our management to build significant relationships with both clients and field level management. We believe that these relationships, coupled with management s strong technical expertise, create a significant competitive advantage.

Location

Our headquarters and principal manufacturing facilities are located in Barranquilla, Colombia, which is strategically located near three major ports in Barranquilla, Cartagena and Santa Marta. These ports, which are only two hours drive from each other, provide us with sea access to all major markets globally.

High Barriers to Entry

Entry into many of the markets that we serve is limited due to the technical certifications required on high specification building projects. Our success is due in large part to the breadth of our product offering and our reputation for delivering high quality, made-to-order architectural glass on time. These factors are required to compete successfully for multimillion dollar projects typical of our business. Given the vertically-integrated nature of our operations, including the aluminum extrusion products provided by Tecnoglass, there is a more limited set of competitors and entry into these markets. In addition, the equipment needed to operate in the glass and window industry is expensive, requiring a significant upfront capital investment.

Competitive pricing

We offer our customers highly competitive prices due to efficiencies realized from vertical integration and low labor costs. These competitive advantages allow us great flexibility in pricing their components to be competitive in a variety of markets.

Strategy

We have identified the following items that we believe are important in advancing our business:

Continued investments in machinery and equipment with state-of-the-art technology

We have made investments of approximately $94.5 million since 2013, including $56.6 million in 2014 in state-of-the-art glass making equipment, the installation of new laminating lines, high-volume insulating equipment, a new aluminum extrusion press with the capacity for an additional one thousand tons per month, a new paint line with the capacity to treat one million pounds of aluminum per month, and a new aluminum foundry.

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Development of additional high value products

We have a demonstrated track record of developing new products and will continue to focus on capitalizing on new product opportunities in the future. We constantly identify shifting global trends and growing marketplace needs, and design proposals to meet those needs. A feasibility and tuning program, including testing at specialized laboratories in the U.S., is carried out before marketing a new product. In 2014 we started producing architectural systems that integrate LED lighting allowing the façade of the building to display different colors and patterns.

Additionally, we are in the process of implementing new technologies to produce tempered glass that offers notably more transparency with significantly less distortion than industry standard using air cushion technology, as well as new technology used to produce curved glass in a broad range of easily modifiable curvatures.

Manufacture the highest quality products in the market through a rigorous quality assurance program

Our plants are organized internally by processes, each of which is independently and continually supervised by the Quality Assurance department. The Quality Assurance department maintains rigorous oversight over energy, water, recyclable waste and process optimization indicators, in order to produce high quality sustainable products. Approximately 30% of all our waste is recycled.

Continued vertical integration provides margin enhancement

We benefit from operating together under a combined facility, providing advantages in meeting customer and market needs and managing costs. By continuing to expand our degree of vertical integration, we can further enhance productivity, create cost efficiencies and increase operating margins.

Leverage strength in Colombia market to further penetrate Latin America

With a strong base in Colombia, we have already successfully expanded into nearby geographies. Our glass products are featured in major construction projects in Argentina, Aruba, Costa Rica, Panama and Puerto Rico. As the construction market throughout Latin America grows, we are positioned to capture new growth in the markets we have currently penetrated, as well as in new high growth countries.

Leverage strength in Florida market to further penetrate U.S.

We believe we have an established and leading presence in the Florida construction market as providers of high value, impact-resistant glass products. ES s hurricane-proof products are certified in compliance with the stringent requirements of hurricane-proof windows in accordance with applicable U.S. regulations. With a quality of product proven by our success and compliance in the impact-resistant market, we have successfully entered the U.S. remodeling and replacement parts market. In addition, we have the opportunity to grow geographically in the U.S., particularly into other coastal markets on the East Coast which are affected by hurricanes, significant temperature fluctuations and other extreme weather.

Maintain fast and reliable delivery to customers due to strategic location

From the Port of Barranquilla, products can be transported to Panama by air in one hour and to Houston and Miami within two hours, within two days by sea to Panama and within four days by sea to Houston and Miami.

Penetrate additional markets

With a strong base in Colombia and Florida, we will seek to expand into further geographies, such as Asia and Europe. We believe the centralized location of the Port of Barranquilla will aid in our expanding into such new markets.

Products

TG manufactures and sells the following products:

Laminated/Thermo-Laminated Glass produced by bonding two glass sheets with an intermediate film in-between. As a safety feature, this product fractures into small pieces if it breaks.

Thermo-Acoustic Glass manufactured with two or more glass sheets separated by an aluminum or micro-perforated steel profile. This product has a double-seal system that ensures the unit s tightness, buffering

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noise and improving thermal control. This product serves as an excellent noise barrier, which is used especially in zones close to airports, traffic or wherever there are unpleasant sounds.

Tempered Glass glass subject to a tempering process through elevated temperatures resulting in greater superficial elasticity and resistance than conventional glass.

Silk-Screened Glass special paint is applied to glass using automatic machinery and numerical control which ensures paint homogeneity and an excellent finish.

Curved Glass produced by bending a flat glass sheet over a mold, using an automated heat process, which maintains the glass physical properties.

Digital Print Glass digital printing allows any kind of appearance required by the client, offering versatility to projects.

TG s aluminum products sold through its Alutions brand include bars, plates, profiles, rods and tubes used primarily in the manufacture of architectural glass settings including windows, doors, spatial separators and similar products.

ES manufactures and sells the following products:

Floating facades act as a window screen hanging outside a building and are available in many technical specifications and profiles to define colors, thickness, glass types and finishes, and types of ventilation and design complements.

Windows and Doors line of window and door products defined by the different types of glass finish, such as normal, impact resistant, hurricane-proof, safety, soundproof and thermal. Additionally, they are available in numerous structures, including fixed body, sliding windows, projecting windows, guillotine windows, sliding doors and swinging doors.

Commercial display windows commercial and interior display windows with a broad range of profiles, colors and crystal finishes. Products combine functionality, aesthetics and elegance and are available in a broad range of structures and materials.

Hurricane-proof windows combine heavy-duty aluminum or vinyl frames with special laminated glass to provide protection from hurricane-force winds up to 180 mph and wind-borne debris by maintaining their structural integrity and preventing penetration by impacting objects.

Automatic doors exclusive representative in Colombia of Horton Automatics, a manufacturer of automatic doors including glass window systems.

Bathroom dividers bathroom cubicle division systems, formed by combining glass panels, frames and doors.

Other photovoltaic structures and other components of architectural systems.

Brands and Trademarks

Our brands include Tecnoglass, ES Windows and Alutions. Our registered trademarks include Alutions by Tecnoglass with the accompanying logo and Alutions . Tecnoglass and ES Windows are not registered as trademarks by us.

Sales, Marketing and Customer Service

Sales and marketing

Our sales strategy primarily focuses on attracting and retaining customers by consistently providing exceptional customer service, leading product quality, and competitive pricing. Our customers also value their shorter lead times, knowledge of building code requirements and technical expertise, which collectively generate significant customer loyalty. Our products are marketed using a combination of their internal sales representatives and independent sales representatives and directly to distributors. Our internal sales representatives receive performance-based compensation based on sales and profitability metrics. We primarily market our products based on product quality, outstanding service, shorter lead times and on-time delivery.

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Customer Service

We believe that our ability to provide customers outstanding service quality serves as a strong competitive differentiator. Our customer relationships are established and maintained through the coordinated efforts of our sales and production teams. We employ a team of highly seasoned professionals devoted to addressing customer support with the goal of resolving any issue in a timely manner. In order to promote customer loyalty and employee development, we developed ES Windows University with the primary objectives of training employees to be aware of client and supplier needs and familiarizing them with our strategic goals in order to improve the competitiveness, productivity and quality of all products and services offered.

Working Capital Requirements

Trade accounts receivable is the largest component of working capital, including receivables relating to contractual retention amounts that can be outstanding throughout the project duration for large-scale architectural projects. Our inventory requirements are not significant since our products are made-to-order rather than build-to-stock. As a result, inventory levels follow customer demand for products produced.

Customers

Our customers include architects, building owners, general contractors and glazing subcontractors in the commercial construction market. We have over 800 customers. Of our 200 most representative customers, about 24% are located in North America, 13% in Central America and the Caribbean, and 63% in South America. Excluding revenue from related parties, only one customer accounted for more than 10% or more of our net sales during 2014 or 2013 with 14% of sales during 2014.

Materials and Suppliers

Our primary manufacturing materials include glass, ionoplast, polyvinyl butyral, and aluminum and vinyl extrusions. Although in some instances we have agreements with our suppliers, these agreements are generally terminable by us or the supplier counterparties on limited notice. Typically, all of our materials are readily available from a number of sources, and no supplier delays or shortages are anticipated.

We source raw materials and glass necessary to manufacture our products from a variety of domestic and foreign suppliers. For the year ended December 31, 2014, no single supplier accounted for more than 10% of total raw material purchases.

Warranties

We offer product warranties which we believe are competitive for the markets in which our products are sold. The nature and extent of these warranties depend upon the product. Our standard warranties are generally from five to ten years for architectural glass, curtain wall, laminated and tempered glass, window and door products. Warranties are not priced or sold separately and do not provide the customer with services or coverages in addition to the assurance that the product complies with original agreed-upon specifications. In the event of a claim against a product for which we have received a warranty from the supplier, we transfer the claim back to the supplier.

Certifications

Among our many designations and certifications, Tecnoglass has earned the Miami-Dade County Notice of Acceptance (NOA), one of the most demanding certificates in the industry and a requirement to market hurricane-resistant glass in Florida. Tecnoglass s products comply with Miami-Dade county s safety code standards as its laminated anti-hurricane glass resists impact, pressure, water and wind. Tecnoglass is also the only company in Latin America authorized by PPG Industries and Guardian Industries to manufacture floating glass facades.

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Our subsidiaries have received a number of other certifications from other national and international standard-setting bodies.

Tecnoglass Certifications include:

- NTC-1578
- ASTM E774 1997
- ISO 9001: 2008 Certificate of Quality Assurance
- ISO 14001: 2004 Certificate of Environmental Management
- Safety Glazing Certification Council (SGCC) for tempered and laminated glass: ANZI Z97 1-2004
- International Glass Certification Council (IGCC) for insulated glass: ASTM E774 97
- Pittsburgh Plate Glass (PPG) certified supplier
- Member of ACOLVISE (Colombia Association of Safety Glass Transformers)

ES Certifications include:

- NTC-ISO 9001: 2008 Certificate of Quality Assurance
- NTC-ISO 14001: 2004 Certificate of Environmental Management
- Member of the American Architectural Manufacturers Association (AAMA)
- Complies with Miami-Dade County s stringent safety code regulations for hurricane-proof windows

Competitors

We have local competitors in Colombia as well as competitors in the markets internationally, in each of the glass, aluminum and finished products sectors. Glass Tecnologia en Vidrios y Ventanas S.A., Arquicentro S.A., Aluminum Estructural S.A. and Ventanar Ltda, compete with us in the finished products market in Colombia. Apogee Enterprises, Inc., PGT, Inc. and WinDoor Inc. compete with us in the U.S. finished products market. Golden Glass Security, Vid-plex Universal S.A., Aluace Ltda and Laminados y Blindados compete with us locally in the glass and aluminum markets. Oldcastle, Inc., Trulite Inc., and PRL Glass Systems are among others that compete with us in the U.S. glass and aluminum products markets.

The key factors on which we and our competitors compete for business include: quality, price and reputation, breadth of products and service offerings, and production speed. We face intense competition from both smaller and larger market players who compete against us in our various markets including glass, window and aluminum manufacturing.

The principal methods of competition in the window and door industry are the development of long-term relationships with window and door distributors and dealers, and the retention of customers by delivering a full range of high-quality customized products on demand with short turnaround times while offering competitive pricing. The vertical integration of our operations, our geographic scope, low labor costs and economies of scale have helped our subsidiaries consolidate their leading position in Colombia and bolstered their expansion in the U.S. and other foreign markets.

Sales and Marketing

We employ a limited number of in-house sales employees. Most of our sales and marketing efforts are handled by area sales representatives who work on a commission basis.

We do not rely on significant traditional advertising expenditures to drive net sales. We have established and maintain credibility primarily through the strength of our products, our customer service and quality assurance, the speed at which we deliver finished products and the attractiveness of our pricing. Our advertising expenditures consist primarily of maintaining our subsidiaries websites.

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Backlog

We had combined outstanding orders of $280 million as of December 31, 2014 as compared to $120 million as of December 31, 2013. The backlog as of December 31, 2014 is expected to be filled during the current fiscal year. We do not believe that backlog is indicative of our future results of operations or prospects. Although we seek commitments from customers well in advance of shipment dates, actual confirmed orders are typically not received until close to the required shipment dates.

Government Regulations

We are subject to extensive and varied federal, state and local government regulation in the jurisdictions in which we operate, including laws and regulations relating to our relationships with our employees, public health and safety and fire codes. Additionally, certain of the jurisdictions in which we operate require that installation of doors and windows be approved by competent authorities that grant distribution licenses.

Although our business and facilities are subject to federal, state and local environmental regulation, environmental regulation does not have a material effect on our operations.

Research and Development

During the years ended December 31, 2014 and December 31, 2013, we spent approximately $1.3 and $1.7 million, respectively, in research and development.

Our commercial ally and related party in the United States, ES Windows LLC, bears significant costs related to the development of new products, since they pay for the external tests that need to be performed on our products in order to comply with strict building codes. ESWindows LLC is fully permitted to commercialize hurricane windows in the Miami-Dade County, Florida, which has one of the most demanding certifications in the world of window frames.

Employees

As of December 31, 2014, we had a total of 3,412 employees, with 2,267 employed by ES and 1,145 employed by TG, none of whom is represented by a union. Most of our employees are hired through seven temporary staffing companies and are employed under one-year fixed-term employment contracts. Management believes it has good relations with our employees. We provide ongoing training programs to our employees through the self-established E.S. Windows University.

Properties

We own and operate a 2.3 million square foot manufacturing complex located in Barranquilla, Colombia. This manufacturing campus houses a glass production plant, aluminum plant and window and facade assembly plant. The glass plant has four lamination machines with independent assembly rooms, six specialized tempering furnaces and glass molding furnaces, a computer numerical-controlled profile bending machine, as well as five silk-screening machines. The Alutions plant has an effective installed capacity of 1,000 tons per month and can create a variety of shapes and forms for windows, doors and related products. We also own three natural gas power generation plants with a capacity of 1,750 kilowatts each which supply the electricity requirements of the entire manufacturing complex and are supported by three emergency generators.

In December 2014, we acquired a 160,000 square foot manufacturing and warehousing facility in Miami-Dade County, Florida, United States. The facility houses manufacturing and assembly equipment, warehouse space, and administrative and sales offices.

We believe that our existing properties are adequate for the current operating requirements of our business and that additional space will be available as needed.

Legal Proceedings

TG is a named defendant in In the matter of Diplomat Properties, Limited Partnership as assignee of Shower Concepts, Inc. v. Tecnoglass Colombia, S.A. et al., Case No. CACE 11-02811(09), 17th Judicial Circuit in and for Broward County, Florida. Plaintiff Diplomat Properties, Limited (Diplomat) has asserted a claim for indemnification against TG and Tecnoglass USA, a related party. The claim arises from the

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supplying of glass shower doors to a hotel/spa in Broward County, Florida. Specifically, in 2006, Diplomat commenced arbitration against Shower Concepts, Inc. seeking damages for breach of contract due to fractures in the installed glass shower doors. The claim was based upon a contract between Diplomat and Shower Concepts for the sale and installation of glass shower and bath doors to be used by Diplomat in hotel that it owned. Shower Concepts chose not to defend against the breach of contract claim and in 2007, the arbitrator rendered an award in the amount of approximately $2 million in favor of Diplomat and against Shower Concepts. The award was confirmed by the Circuit Court and, on July 23, 2008, a final judgment for breach of contract was entered against Shower Concepts. No appeal of the decision was made. On August 11, 2009, Shower Concepts assigned its rights under the contract to Diplomat. On November 9, 2011, Diplomat initiated the underlying action against the Tecnoglass entities and co-defendant, Guardian Industries Corp. The complaint asserted various claims which were dismissed with prejudice. The only remaining claim against the Tecnoglass entities is common law indemnification. TG denies liability and asserts that Shower Concepts was at fault and that as a joint tortfeasor, it cannot sue for indemnity. A trial date has not yet been set for this case.

Security Ownership of Certain Beneficial Owners and Management

The following tables set forth information as of September 30, 2015, and upon completion of the exchange pursuant to the Offer, assuming exchange of all of our outstanding Warrants, regarding the beneficial ownership of our ordinary shares by:

each person known to be the beneficial owner of more than five percent of our outstanding ordinary shares;
each of our directors and our named executive officers; and
all current executive officers and directors as a group.

Unless otherwise indicated, we believe that all persons named in the table have sole voting and investment power with respect to all ordinary shares beneficially owned by them.

	Beneficial Ownership[2]		Beneficial Ownership Upon Completion of Exchange[3]	
Name and Address of Beneficial Owner[1]	Amount and Nature of Beneficial Ownership	Approximate Percentage of Beneficial Ownership	Amount and Nature of Beneficial Ownership	Approximate Percentage of Beneficial Ownership
Directors and Executive Officers				
Jose M. Daes	0 (4)	0 %	0	0 %
Christian T. Daes	0 (4)	0 %	0	0 %
Samuel R. Azout	0	0 %	0	0 %
Juan Carlos Vilariño	0	0 %	0	0 %
Joaquin F. Fernandez	21,856,223 (5)	82.1 %	21,410,220	73.2 %
A. Lorne Weil	95,693 (6)	*	95,693	*
Julio A. Torres	172,000 (7)	*	101,348	*
Martha L. Byorum	190,000 (7)	*	127,826	*
All directors and executive officers as a group (11 persons)	22,313,916	83.1 %	127,826	74.4 %

Five Percent Holders:				
Energy Holding Corporation	21,856,223 [5]	82.1 %	21,410,220	73.2 %
Red Oak Partners, LLC 1969 SW 17th Street Boca Raton, FL 33486	1,858,516 [8]	6.8 %	127,826	3.6 %

* Less than 1%.

(1) Unless otherwise indicated, the business address of each of the individuals is c/o Tecnoglass Inc., Avenida Circunvalar a 100 mts de la Via 40, Barrio Las Flores, Barranquilla, Colombia.

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(2) Unless otherwise indicated, we believe that all persons named in the table have sole voting and investment power with respect to all ordinary shares beneficially owned by them. The percentage of beneficial ownership is calculated based on 25,833,210 ordinary shares outstanding as of September 30, 2015. Shares which an individual or group has a right to acquire within 60 days pursuant to the exercise or conversion of options, Warrants or other similar convertible or derivative securities are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

(3) The percentage of beneficial ownership upon completion of the exchange pursuant to the Offer is calculated based on 29,232,247 ordinary shares deemed outstanding, which assumes that all Warrants are surrendered for exchange pursuant to the Offer.

(4) Does not include shares held by Energy Holding Corporation, in which this person has an indirect ownership interest.

(5) Represents all ordinary shares held by Energy Holding Corporation, of which Messrs. Joaquin Fernandez and Alberto Velilla Becerra are directors and may be deemed to share voting and dispositive power over such shares. Includes 789,082 ordinary shares issuable upon the exercise of 789,082 Private Warrants held by Energy Holding Corporation, which became exercisable upon the consummation of our initial business combination. Does not include the shares that may be issued to Energy Holding Corporation upon achievement of certain share price and earnings targets for the fiscal years ending December 31, 2015 and 2016.

(6) Does not include 253,000 ordinary shares held by Child s Trust f/b/o Francesca Weil u/a dated March 4, 2010 and 253,000 ordinary shares held by Child s Trust f/b/o Alexander Weil u/a dated March 4, 2010, irrevocable trusts established for the benefit of Mr. Weil s children. Does not include 95,693 ordinary shares held by The A. Lorne Weil 2006 Irrevocable Trust Family Investment Trust, of which Mr. Weil, his spouse and his descendants are beneficiaries but over which Mr. Weil does not exercise voting or dispositive power.

(7) Includes 125,000 ordinary shares issuable upon the exercise of 125,000 Private Warrants held by Julio A. Torres and 110,000 ordinary shares issuable upon the exercise of 110,000 Private Warrants held by Martha L. Byorum, which became exercisable upon consummation of our initial business combination.

(8) Red Oak Partners may be deemed to beneficially own 1,858,516 ordinary shares, which includes: (i) 155,977 ordinary shares held by The Red Oak Fund, LP (Red Oak); (ii) 484,330 ordinary shares issuable upon the exercise of Warrants held by Red Oak; (iii) 27,334 ordinary shares issuable upon exercise of unit purchase options (and the underlying Warrants) held by Red Oak; (vi) 68,561 ordinary shares held by Red Oak Long Fund, L.P. (Red Oak Long Fund); (vii) 225,962 ordinary shares issuable upon the exercise of Warrants held by Red Oak Long Fund; (viii) 13,084 ordinary shares issuable upon exercise of unit purchase options (and the underlying Warrants) held by Red Oak Long Fund; (ix) 208,981 ordinary shares held by Pinnacle Opportunities Fund, LP (Pinnacle); (x) 637,282 ordinary shares issuable upon the exercise of Warrants held by Pinnacle; and (xi) 37,004 ordinary shares issuable upon exercise of unit purchase options (and the underlying Warrants) held by Pinnacle. David Sandberg is the managing member of Red Oak Partners and may be deemed the beneficial owner of shares held by Red Oak Partners through the funds. Information was derived from a Schedule 13D filed on March 9, 2015.

Directors and Executive Officers

Our current directors and executive officers are as follows:

Name	Age	Position
José M. Daes	54	Chief Executive Officer and Director
Christian T. Daes	50	Chief Operating Officer and Director
Joaquin Fernandez	54	Chief Financial Officer
A. Lorne Weil	64	Non-Executive Chairman of the Board

Samuel R. Azout	55	Independent Director
Juan Carlos Vilariño	52	Independent Director
Martha (Stormy) L. Byorum	60	Independent Director
Julio A. Torres	47	Independent Director

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José M. Daes has served as our chief executive officer and a director since December 2013. Mr. Daes has over 30 years experience starting and operating various businesses in Colombia and the U.S. Mr. Daes has served as chief executive officer of ES since its inception in 1984, responsible for all aspects of ES s operations. Mr. Daes began his career in textiles, importing textiles from Japan to Colombia and later owned and operated an upscale clothing store with multiple locations in Miami. Mr. Daes is the older brother of Christian T. Daes, our chief operating officer and director.

We believe Mr. Daes is well-qualified to serve as a member of our board of directors due to his operational experience with ES and TG and his knowledge of the industry within which they operate.

Christian T. Daes has served as our chief operating officer and a director since December 2013. Mr. Daes has served as the chief executive officer of TG since its inception in 1994, responsible for all aspects of TG s operations. Mr. Daes s philanthropic activities include founding the Tecnoglass-ES Windows Foundation, which promotes local development, health and social programs in Barranquilla, Colombia. Mr. Daes is the younger brother of José M. Daes, our chief executive officer and director.

We believe Mr. Daes is well-qualified to serve as a member of our board of directors due to his operational experience with ES and TG and his knowledge of the industry within which they operate.

Joaquín F. Fernández has served as our chief financial officer since December 2013 and the chief financial officer for TG and ES since 2007. He has also served as a director of ES since January 2002. Mr. Fernández oversees the gathering, reporting, presentation and interpretation of the historical financial information for us and our subsidiaries, as well as implementation of financial strategy for us. Prior to joining TG and ES, Mr. Fernández worked at fuel distribution, outsourcing, and public utility companies.

A. Lorne Weil has served as a member of our board of directors and non-executive chairman of the board since our inception. Mr. Weil has served as Chairman and Chief Executive Officer of Hydra Industries Acquisition Corp., a blank check company seeking to acquire a target business, since May 2014. He has also served as a principal of Hydra Management, an investment vehicle formed by Mr. Weil, since September 2014. Mr. Weil has also served as a director of Sportech Plc, one of the largest suppliers and operators of pools/tote (often also referred to as pari-mutuel) betting in the world, since October 2010. From October 1991 to November 2013, Mr. Weil served as chairman of the board of Scientific Games Corporation, a supplier of technology-based products, systems and services to gaming markets worldwide, and served as its chief executive officer from April 1992 until November 2013. Mr. Weil also served as president of Scientific Games from August 1997 to June 2005. From 1979 to November 1992, Mr. Weil was president of Lorne Weil, Inc., a firm providing strategic planning and corporate development services to high technology industries. Previously, Mr. Weil was vice president of corporate development at General Instrument Corporation, working with wagering and cable systems.

We believe Mr. Weil is well-qualified to serve as a member of our board of directors due to his extensive business experience in strategic planning and corporate development, his contacts he has fostered throughout his career, as well as his operational experience.

Samuel R. Azout has served on our board of directors since December 2013 and on the board of TG since February 2009. Since March 2013, Mr. Azout has served as an investment manager for Abacus Real Estate. From January 2012 to March 2013, Mr. Azout served as the chief executive officer of the National Agency for Overcoming Extreme Poverty in Colombia, an organization formed by the government of Colombia to assist families in poverty. From September 2008 to January 2012, Mr. Azout was the senior presidential advisor for Social Prosperity, employed by the administration of the President of Colombia. Prior to this, Mr. Azout served as chief executive officer of Carulla

Vivero S.A., the second largest retailer in Colombia, for 10 years, until he led its sale to Grupo Exito in 2006.

We believe Mr. Azout is well-qualified to serve as a member of our board of directors due to his contacts and business relationships in Colombia.

Juan Carlos Vilariño has served on our board of directors since December 2013, on the board of TG since November 1995 and on the board of ES since March 1997. Mr. Vilariño has worked as the general manager of various business highway concession consortiums in Colombia including the Malla Vial del

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Atlántico Highway Concession Consortium since 1993 and the Barranquilla-Ciénaga Highway Concession consortium since 1999. Mr. Vilariño began his career as the assistant vice president in the general consulting department of Finance Corporation of the North, S.A. We believe Mr. Vilariño is well-qualified to serve as a member of our board of directors due to his contacts and business relationships in Colombia.

Martha (Stormy) L. Byorum has served as a member of our board of directors since November 2011. Ms. Byorum is founder and chief executive officer of Cori Investment Advisors, LLC (Cori Capital), a financial services entity that was most recently (January 2005 through August 2013) a division of Stephens Inc., a private investment banking firm founded in 1933. Ms. Byorum was also an executive vice president of Stephens Inc. from January 2005 until August 2013. From March 2003 to December 2004, Ms. Byorum served as chief executive officer of Cori Investment Advisors, LLC, which was spun off from VB&P in 2003. Ms. Byorum co-founded VB&P in 1996 and served as a Partner until February 2003. Prior to co-founding VB&P in 1996, Ms. Byorum had a 24-year career at Citibank, where, among other things, she served as chief of staff and chief financial officer for Citibank s Latin American Banking Group from 1986 to 1990, overseeing $15 billion of loans and coordinating activities in 22 countries. She was later appointed the head of Citibank s U.S. Corporate Banking Business and a member of the bank s Operating Committee and a Customer Group Executive with global responsibilities.

Ms. Byorum is a Life Trustee of Amherst College and a chairman of the finance committee of the board of directors of Northwest Natural Gas, a large distributor of natural gas services in the Pacific Northwest.

We believe Ms. Byorum is well-qualified to serve as a member of the board of directors due to her operational experience with Cori Capital Advisors, VB&P and Citibank and her financial background, which includes having served on the audit committees of four publicly-traded companies.

Julio A. Torres has served on our board of directors since October 2011. He previously served as our co-chief executive officer from October 2011 through January 2013. Since March 2008, Mr. Torres has served as managing director of Nexus Capital Partners, a private equity firm. From April 2006 to February 2008, Mr. Torres served with the Colombian Ministry of Finance acting as general director of public credit and the treasury. From June 2002 to April 2006, Mr. Torres served as managing director of Diligo Advisory Group, an investment banking firm. From September 1994 to June 2002, Mr. Torres served as vice president with JPMorgan Chase Bank.

We believe Mr. Torres is well-qualified to serve as a member of our board of directors due to his operational experience with Nexus Capital Partners, his work with the Colombian government and his extensive contacts he has fostered while working at Nexus Capital Partners, JPMorgan Chase Bank and in the Colombian government.

Our ordinary shares are listed on the NASDAQ Capital Market and therefore, we adhere to the NASDAQ listing standards in determining whether a director is independent. Our board of directors consults with its counsel to ensure that the board s determinations are consistent with those rules and all relevant securities and other laws and regulations regarding the independence of directors.

The NASDAQ listing standards define an independent director as a person, other than an executive officer of a company or any other individual having a relationship which, in the opinion of the issuer s board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Consistent with these considerations, we have affirmatively determined that Messrs. Weil, Azout, Vilariño, Torres and Ms. Byorum qualify as independent directors. Our independent directors have regularly scheduled meetings at which only independent directors are present.

Executive and Director Compensation

Executive Compensation

Our policies with respect to the compensation of our executive officers are administered by our board in consultation with our compensation committee. Our compensation policies are intended to provide for compensation that is sufficient to attract, motivate and retain executives of outstanding ability and potential and to establish an appropriate relationship between executive compensation and the creation of shareholder value. To meet these goals, the compensation committee is charged with recommending executive compensation packages to our board.

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Prior to consummation of the Merger in December 2013, none of our executive officers or directors received compensation for services rendered to us. No compensation or fees of any kind, including finders, consulting or other similar fees, were paid to any of our initial shareholders, including our officers and directors, or any of their respective affiliates, prior to, or for any services they rendered in order to effectuate, the consummation of the initial business combination.

Summary Compensation Table

The following table summarizes the total compensation for the years ended December 31, 2014 and 2013 of each of our named executive officers.

Name and principal position	Year	Salary	Bonus	Total
Jose M. Daes[(1)]	2014	$ 683,000	$	$ 683,000
Chief Executive Officer	2013	$ 720,000	$ 100,000	$ 820,000
Christian T. Daes[(2)]	2014	$ 430,000	$	$ 430,000
Chief Operating Officer	2013	$ 720,000	$ 100,000	$ 820,000
Joaquin Fernández[(3)]	2014	$ 180,000	$ 34,000	$ 214,000
Chief Financial Officer	2013	$ 120,000	$	$ 120,000

(1) Mr. Daes was appointed chief executive officer in December 2013 in connection with the Merger. Mr. Daes also serves as chief executive officer of ES. Compensation information for 2013 includes amounts paid to Mr. Daes in his capacity as chief executive officer of ES prior to the Merger.

(2) Mr. Daes was appointed chief operating officer in December 2013 in connection with the Merger. Mr. Daes also serves as chief executive officer of Tecnoglass. Compensation information for 2013 includes amounts paid to Mr. Daes in his capacity as chief executive officer of Tecnoglass prior to the Merger. Compensation information for 2014 does not include certain amounts paid to ESW LLC, of which Mr. Daes owns 20%, on Mr. Daes behalf.

(3) Mr. Fernández was appointed chief financial officer in December 2013 in connection the Merger. Mr. Fernández also serves as chief financial officer of Tecnoglass and ES. Compensation information for 2013 includes amounts paid to Mr. Fernández in his capacity as chief financial officer of Tecnoglass and ES prior to the Merger.

Compensation Arrangements with Named Executive Officers

At present, we do not have employment agreements in place for our current executive officers. We have determined to continue the compensation arrangements that were in place prior to the Merger for each of Messrs. Daes and Daes with ES and Tecnoglass, respectively, generally providing for an annual base salary of $720,000, and to provide an annual base salary to Mr. Fernández equal to approximately $180,000 going forward. Our compensation committee may determine to award a discretionary cash bonus to such executive officers as has been awarded in the past by Tecnoglass and ES, and may also determine to award to such executive officers share options, share appreciation rights or other awards under our 2013 Long-Term Equity Incentive Plan. We anticipate continuing these compensation arrangements until we enter into employment agreements with our executive officers. Upon entry into employment agreements with our executive officers, we will file a Current Report on Form 8-K to disclose the material terms of such agreements.

Equity Awards at Fiscal Year End

As of December 31, 2014, we had not granted any share options, share appreciation rights or any other awards under long-term incentive plans to any of our executive officers.

Director Compensation

For the year ended December 31, 2014, we did not compensate any of our directors for their service on the board. However, we did reimburse our directors for out-of-pocket expenses incurred by them in connection with activities on our behalf such as identifying potential target businesses and performing due diligence on suitable business combinations.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes to those statements included in this Prospectus/Offer to Exchange. This discussion contains forward-looking statements that involve risks and uncertainties. Please see the sections entitled Cautionary Note regarding Forward-Looking Statements and Risk Factors in this Prospectus/Offer to Exchange.

Overview

We are a holding company operating through our indirect, wholly-owned subsidiaries: TG, which manufactures, transforms, markets and exports a variety of glass products since 1994 and established the Alutions plant in 2007 for aluminum products, and ES, a leader in the production of high-end windows and architectural glass systems. We have more than 30 years experience in the glass and aluminum structure assembly market in Colombia.

We manufacture hi-specification architectural glass and windows for the global residential and commercial construction industries. Currently we offer design, production, marketing, and installation of architectural systems for buildings of high, medium and low elevation size. Products include windows and doors in glass and aluminum, floating façades, office partitions and interior divisions, and commercial window showcases.

In recent years, we have expanded our US sales outside of the Florida market, entering into high-tech markets for curtain walls, obtaining a niche market access since this product is in high demand and marks a new trend in architecture. This product is a very sophisticated product and therefore garners high margins for us. These products involve high performance materials that are produced by Alutions and TG with state of the art technology.

In Panama, ES sells products primarily to companies participating in large construction projects in the most exclusive areas of the city. For example, ES products were supplied in the construction of the tallest building in Central and South America, The Point, as well as in the construction of the most modern hotels in the region such as Megapolis and The Trump. Based on ES s knowledge of the construction market in Central America, ES has entered into one of the highest value window supply contracts in the hotel industry in Central America for the Soho Plaza.

How We Generate Revenue

TG manufactures both glass and aluminum products. Its glass products include tempered glass, laminated glass, thermo-acoustic glass, curved glass, silk-screened glass, and digital print glass as well as mill finished, anodized, painted aluminum profiles and produces rods, tubes, bars and plates.

Window production lines are defined depending on the different types of windows: normal, impact resistant, hurricane-proof, safety, soundproof and thermal. ES produces fixed body, sliding windows, projecting windows, guillotine windows, sliding doors and swinging doors. ES produces façade products which include: floating facades, automatic doors, bathroom dividers and commercial display windows.

TG sells to over 300 customers using several sales teams based out of Colombia to specifically target regional markets in South, Central and North America. TG has sales representatives in the United States to address that market specifically. In addition, TG has approximately 10 free-lance sales representatives in North America.

ES sells its products through four main offices/sales teams based out of Colombia, Panama and the US. The Colombia sales team is our largest sales group, which has deep contacts throughout the construction industry. The Colombia sales team markets both ES s products as well as installation services. The Peruvian office is responsible for South American sales, excluding Colombia. Its sales forces in Panama and the US are not via subsidiaries but arms-length agreements with sales representatives. ES has two types of sales operations: Contract sales, which are the high-dollar, specifically-tailored customer projects; and Standard Form Sales.

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Liquidity

As of June 30, 2015 and December 31, 2014, the Company had cash and cash equivalents of approximately $16.0 million and $15.9 million, respectively. The Company expects that cash flow from operations and proceeds from borrowings under the Company s lines of credit will be sufficient to fund the Company s cash requirements for the next twelve months.

As of June 30, 2015, the Company has secured approximately $60 million in additional long term loan availability for working capital or capital expenditure requirements with maturities ranging between 5 and 10 years, which will be sufficient to fund any anticipated requirements for the next 12 months. As of June 30, 2015 the Company has taken a number of bridge loans increasing its short term debt profile while it continues negotiations with local and foreign banks in order to restructure and extend the maturities of its current debt profile by accessing the long-term debt facilities, which are available in the Colombian and international loan markets. If the Company is unable to refinance expiring portions of its short-term debt as they become due, the Company could be unable to meet payment obligations to suppliers and other creditors until additional debt is secured. The Company believes it will be able to restructure and refinance its short-term debt.

During the year 2014, the proceeds from the merger were one of our primary sources of liquidity as well.

Additionally, until the redemption of certain warrants and unit purchase options or their expiration in December 2016, we could receive up to $89.4 million from the exercise of warrants and unit purchase options comprised of: up to $40 million upon the exercise of all of the insider warrants and working capital warrants, up to $9.4 million upon the exercise of the unit purchase options, up to $7.2 million upon the exercise of the warrants underlying such unit purchase options and up to $32.8 million upon the exercise of the warrants issued in our IPO. As of June 30, 2015, 102,570 warrants have been exercised for proceeds of $0.8 million.

Capital Resources

New technology investments

During the six months ended in June 30, 2015, the Company made significant capital expenditures of approximately $35.3 million. This included the creation of a complete jumbo glass production line that includes washing, tempering, laminating, insulating, silk screening and cutting of glass pieces of up to three meters by six meters. In addition, four new state of the art glass tempering ovens were purchased which increased the plant efficiency and the quality of the finished products.

Results of Operations

	Three Months Ended June 30 2015	Three Months Ended June 30 2014	Six Months Ended June 30 2015	Six Months Ended June 30 2014
Operating Revenues	$ 58,053	$ 51,936	$ 110,096	$ 99,777
Cost of sales	39,055	35,287	73,916	68,532

Gross profit	**18,998**	**16,649**	**36,180**	**31,245**
Operating expenses	9,690	8,230	18,870	14,969
Operating income	**9,308**	**8,419**	**17,310**	**16,276**
Non-operating revenues, net	1,417	1,191	5,142	2,477
Interest Expense	2,050	2,294	4,202	4,267
Loss on change of fair value of warrant liability	(16,391)	(4,645)	(11,313)	(13,525)
Income tax provision	3,631	2,263	8,403	5,234
Net (loss) income	**$ (11,347)**	**$ 408**	**$ (1,466)**	**$ (4,273)**

Comparison of quarterly periods ended June 30, 2015 and June 30, 2014

Revenues

The Company s net operating revenues increased $6.1 million or 11.6% from $52.0 million to $58.1 million for the quarterly period ended June 30, 2015 compared the quarterly period ended June 30, 2014.

Sales in the U.S. market for the quarterly period ended June 30, 2015 increased $7.3 million or 28.0% when compared to the quarterly period ended June 30, 2014. The Company continued expansion of sales

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outside of traditional base in the South Florida region and is now selling in several regions including Baltimore-Washington, California, Texas, New York and New Jersey on the basis of timely delivery, competitive prices, and high quality. Sales in the Colombian market, with a significant participation of long-term contracts priced in local currency, increased 34.9% in terms of local currency, but because of unfavorable change in exchange rates, sales in Colombia increased less than $0.1 million or 0.3% for the quarters ended June 30, 2015 compared to the same period of 2014. Sales to Panama decreased by $2.0 million, or 60.3% from the first quarter of 2015 compared to the first quarter of 2014 as large projects the Company had in Panama were finalized.

Margins

Sales margins increased slightly to 32.7% from 32.1% in the quarterly periods ended June 30, 2015 and 2014. This variation is within normal fluctuations experienced by the company depending on varied product mix over short periods of time. The sales margin for the six month period ended June 30, 2015 shows a slight improvement over 2014, as further discussed below.

Expenses

Selling and Administrative Expenses increased 17.7% from $8.2 million to $9.7 million in the quarterly period ended June 30, 2015 when compared to the quarterly period ended June 30, 2014. The increase was a result of $0.5 million higher 2015 sales commissions and $0.3 million shipping expense as part of the Company s strategy to increase sales, as well as $0.4 million in amortization of Miami-Dade county Notices of Acceptance that were purchased during the second half of 2014.

Loss Warrants Liability

A non-cash, non-operating loss of $16.4 million arose from the increase in the fair value of the warrant liability in the three month period ended June 30, 2015 relative to its fair value at the end of the previous quarter ended March 31, 2015. The fair value of the warrants liability changes in response to market factors not directly controlled by the Company such as the market price of the Company s shares and the volatility index of comparable companies. There are no income tax effects as the Company is registered in the Cayman Islands. See the footnotes to the financial statements.

Management does not consider the effects of the change in the warrant liability to be indicative of the results of the Company s operations.

Income Taxes

The Company s effective tax rates were (47.1%) and 84.7% for the quarterly periods ended June 30, 2015 and 2014. The Company's effective tax rate for the three month periods ended June 30, 2015 reflect non-deductible losses of $16,391 from the change in fair value of warrant liability as of June 30, 2015, compared with a non-deductible loss of $4,645 for the same period ended June 30, 2014.

Results of operations for the six months ended June 30, 2015 and 2014

Revenues

The Company s net operating revenues increased $10.3 million or 10.3% from $99.8 million to $110.1 million for the six month period ended June 30, 2015 compared the same period ended June 30, 2014.

Growth was driven by sales the U.S. market which increased $17.1 million or 35.7% in the six months ended June 30, 2015 when compared to the quarterly period ended June 30, 2014, which were offset by sales in other markets. The Company continued its expansion of sales outside of its traditional base in the South Florida region and is with direct and contract sales in several regions including Baltimore-Washington, California, Texas, New York and New Jersey on the basis of timely delivery, competitive prices, high quality and strategic alliances with major industry. Sales in the Colombian market, with a significant participation of long-term contracts priced in local currency, increased 17.7% in terms of local currency, but because of unfavorable changes in exchange rates, sales in Colombia declined $3.5 million, or 8.2% for the six months ended June 30, 2015 compared to the same period of 2014.

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Margins

Sales margins increased from 31.3% to 32.9% in the six month periods ended June 30, 2015 and 2014. The company believes the slight increase in sales margin is a result of a higher degree of vertical manufacturing integration and increased exports to markets in the United States where strict building codes require products with higher specification.

Expenses

During the six month periods ended June 30, 2015 and 2014, general selling and administrative increased $3.9 million, or 26.1%, from $14.9 million to $18.9 million. The significant increase was primarily due to several factors that include a capital tax levied on the Company s Colombian subsidiaries and amounted to approximately $0.8 million in 2015, with no comparable expense in 2014. Selling, general and administrative expenses also increased as a result of $0.9 million higher sales commissions, $0.8 million in amortization of intangible assets purchased during the second half of 2014, as well as smaller increases in other expenses such as shipping expense and advertising.

During the six month periods ended June 30, 2015 and 2014, interest expense remained stable at $4.2 million. The Company has been able to attract offers from several domestic and foreign banks to improve the structure of debt at better terms.

Non-operating Revenues

During the six month periods ended June 30, 2015 and 2014 the Company recorded net non-operating revenues of $5.1 million and $2.5 million respectively. The increase of $2.6 million is comprised primarily of net gains on foreign currency transactions that increased by $2.0 million to $3.4 million for the periods ended June 30, 2015 compared to $1.4 million during the same period of 2014 as an effect of the devaluation of the Colombian peso, the functional currency of the Company s operating subsidiaries TG and ES, and $0.7 million in proceeds from sales of aluminum scrap materials.

Loss Warrants Liability

A non-cash, non-operating loss of $11.3 million arose from the increase in the fair value of the warrant liability in the six month period ended June 30, 2015. The fair value of the warrant liability changes in response to market factors not directly controlled by the Company such as the market price of the Company s shares and the volatility index of comparable companies. There are no income tax effects as the Company is registered in the Cayman Islands. See the footnotes to the financial statements.

Income Taxes

The Company s effective tax rates were 121.1% and 545% for the six-month periods ended June 30, 2015 and 2014. The Company's effective tax rate for the six month periods ended June 30, 2015 reflect non-deductible losses of $11,313 from the change in fair value of warrant liability as of June 30, 2015, compared with a non-deductible loss of $13,525 for the same period ended June 30, 2014.

Cash Flow from Operations, Investing and Financing Activities

During the six month periods ended June 30, 2015 and 2014, $7.2 million and $22.9 million, respectively, were generated and used in operating activities. The principal use of cash was trade accounts receivable in both periods. During the six months ended June 30, 2015, the principal uses of cash were trade accounts receivable as the Company s sales increase, and inventories which have increased in preparation for continued growth of operations expected, with cash flows of approximately $13.6 million and $13.7 million, respectively, partially offset by Trade accounts payable which generated $13.0 million, as well as advances from customers which generated $8.3million due to new projects in the first half of 2015.

The Company used $15.9 million and $4.2 million in investing activities during the six months ended June 30, 2015 and 2014 respectively. Principal use of cash for both periods has been purchase of fixed assets as part of the Company s growth strategy that requires investments in state of the art manufacturing equipment and facilities discussed under the Capital Resources section of this Management Discussion and Analysis.

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Cash generated from financing activities was $8.4 million and $41.2 million during the six month periods ended June 30, 2015 and 2014, respectively. Cash flow from financing activities in the six month period ended June 30, 2014 included $22.5 million of proceeds from the merger in December 2013 that were received in January 2014.

	Six months ended June 30, 2015	June 30, 2014
Cash Flow from Operating Activities	$ 7,247	$ (22,887)
Cash Flow from Investing Activities	(15,867)	(4,242)
Cash Flow from Financing Activities	8,369	41,191
Effect of exchange rates on cash and cash equivalents	340	516
Cash Balance Beginning of Period	15,930	2,866
Cash Balance End of Period	$ 16,018	$ 17,444

Comparison of years ended December 31, 2014 and December 31, 2013

Our net operating revenues increased from $183.3 million in 2013 to $197.5 million in 2014, or 7.7%. The increase mostly was driven by planning strategies designed to increase participation in the U.S. market.

The increase is partially due to high quality, reliability, and competitive prices which allowed us to further penetrate our existing markets. Sales in the U.S. market accounted for a $34.9 million increase, which represents 52%. The increase is also partially due to a diversification of markets within the country since our sales in the U.S. have historically been in the South Florida region where sales continue to increase significantly, but is now also expanding to other regions of the United States. Sales to other markets outside Colombia increased by about $1.2 million, or 7.9%. Sales in Colombia decreased by $21.7 million, which represents a 21% decrease between the years ended December 31, 2013 and 2014. We believe the decrease in sales in the Colombian market is primarily due to a transition stage between large projects ending and delays in projects that will start in 2015.

Our total backlog at December 31, 2014 was $280 million, compared with $120 million at December 31, 2013. Backlog represents the dollar amount of revenues we expect to recognize in the future from contracts or received orders, as well as those that are in progress. Backlog is not a term defined under generally accepted accounting principles and is not a measure of contract profitability. We include a project within our backlog at the time a signed contract or a firm purchase order is received.

Our backlog is comprised mostly of ES contract sales for projects that can last up to several years until completion. Our backlog at December 31, 2014 increased from December 31, 2013 as a result of contact awards and business growth, primarily in U.S. markets, including $70 million from RC Aluminum. We do not believe that backlog is indicative of our future results of operations or prospects.

Sales margins increased from 30.2% to 31.1% between the years ended December 31, 2013 and 2014, respectively. Cost of raw materials increased 3.1%, significantly below the sales growth at about 7.7%. We believe this is the result of a higher degree of vertical integration as intercompany sales increased from 22% of total consolidated sales during the year ended December 31, 2013 to 27% during the year ended December 31, 2014.

Improvement in margin by raw materials was offset with a spike in the cost of labor and shipping charges. The number of employees in production and installation increased by 27% during the year ended December 31, 2014 as we prepare to continue growing and new employees need to undergo extensive training before becoming fully productive.

Selling, General and Administrative Expenses increased 21.5%, or $6.0 million, from the year ended December 31, 2013 to December 31, 2014. A significant increase in administrative expenses arose as a result of our merger in December 2013 which has required increased spending in accounting and audit services as well as consultants and personnel for the new reporting standards. Additionally, our Colombian subsidiaries had to adopt International Financial Reporting Standards (IFRS) and incurred significant expenses for software upgrades, personnel training and consulting services.

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Between the years ended December 31, 2014 and 2013, interest expense increased by $1.0 million, or approximately 13%, from $7.9 million to $8.9 million in line with the increase in total debt.

Non-operating revenues rose $8.3 million, from $3.9 million in the year ended December 31, 2013 to $12.2 million in 2014, primarily as an effect of an increase in foreign currency transaction gains from $1.3 million during the year ended December 31, 2013 to $10.8 million during the year ended December 31, 2014, offset by a decrease of $0.9 million in sales of used matrices and scrap materials, and $0.3 million in rent income and other fees. The Colombian Peso, which is the functional currency for the Company s operating subsidiaries ES and TG, experienced a 24.2% devaluation between December 31, 2013 and 2014.

We incurred a non-cash, non-operating loss of $1.7 million in the year ended December 31, 2014 due to the increase in the fair value of our Warrants relative to their fair value at December 31, 2013. The fair value of the Warrants changes in response to market factors not controlled by us such as the market price of our shares and the volatility index of comparable companies. There are no income tax effects of this warrant liability due to our company being registered in the Cayman Islands. Management does not consider the effects of the change in the fair value of the Warrants to be indicative of our results of operations.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2015 and December 31, 2014.

Contractual Obligations

Future contractual obligations represent an impact to future cash flows as shown in the table for the period ended December 31, 2014:

	Payments Due by Period				
Contractual Obligations	TOTAL	Less than 1 year	1 3 years	3 5 years	More than 5 years
Long Term Debt Obligations	$ 39,835	$ 12,243	$ 18,228	$ 5,985	$ 3,379
Interest Obligations	7,393	2,920	2,914	813	747
Capital Lease Obligations	15,505	3,824	6,034	2,507	3,140
Total	$ 62,733	$ 18,987	$ 27,176	$ 9,305	$ 7,266

Future interest obligations are estimated assuming constant reference rates as of December 31, 2014 for obligations with variable interest rates. The average interest rate is approximately 9.4% and 9.5% per annum for long term debt and capital lease obligations respectively, and can vary up or down in accordance with money market rates in Colombia.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. GAAP requires that management make significant estimates and assumptions that affect the assets, liabilities, revenues and expenses, and other related amounts during the periods covered by the financial statements. Management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increases, these judgments become more subjective and complex. We have identified the following accounting policies as the most important to the portrayal of our current financial condition and results of operations.

Revenue Recognition

Our principal sources of revenue are derived from product sales of manufactured glass and aluminum products.

Revenues from fixed price contracts are recognized using the percentage-of-completion method, measured by the percentage of costs incurred to date to total estimated costs for each contract. Revenues recognized in advance of amounts billable pursuant to contracts terms are recorded as unbilled receivables on uncompleted contracts based on work performed and costs to date. Unbilled receivables on uncompleted contracts are billable upon various events, including the attainment of performance milestones, delivery of product and/or services, or completion of the contract. Revisions to cost estimates as contracts progress have the effect of

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increasing or decreasing expected profits each period. Changes in contract estimates occur for a variety of reasons, including changes in contract scope, estimated revenue and cost estimates.

Estimation of Fair Value of warrant liability

The best evidence of fair value is current prices in an active market for similar financial instruments. We determine the fair value of warrant liability by the Company using the Binomial Lattice pricing model. This model is dependent upon several variables such as the instrument s expected term, expected strike price, expected risk-free interest rate over the expected instrument term, the expected dividend yield rate over the expected instrument term and the expected volatility of our stock price over the expected term. The expected term represents the period of time that the instruments granted are expected to be outstanding. The expected strike price is based upon a weighted average probability analysis of the strike price changes expected during the term as a result of the down round protection. The risk-free rates are based on U.S. Treasury securities with similar maturities as the expected terms of the options at the date of valuation. Expected dividend yield is based on historical trends. We measure volatility using a blended weighted average of the volatility rates for a number of similar publicly-traded companies. The inputs to the model were stock price, dividend yield, risk-free rate, expected term and volatility. In general, the inputs used are unobservable; therefore unless indicated otherwise, warrant liability is classified as level 3 under guidance for fair value measurements hierarchy.

Derivative Financial Instruments

We conduct interest rate swap (IRS) transaction with key non-related financial entities to reduce the effect of interest rate fluctuations as economic hedges against interest rate risk. We have designated this derivatives at fair value and the accounting for changes is recorded in Income statement. The inputs used are similar to the prices for similar assets and liabilities in active markets directly or indirectly through market corroboration; therefore unless indicated otherwise, warrant liability is classified as level 2 under guidance for fair value measurements hierarchy.

Income taxes

We are subject to income taxes in some jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

Related Person Policy

Our Code of Ethics requires us to avoid, wherever possible, all related party transactions that could result in actual or potential conflicts of interests, except under guidelines approved by the board of directors (or the audit committee). Related-party transactions are defined as transactions in which (1) the aggregate amount involved will or may be expected to exceed $120,000 in any calendar year, (2) we or any of our subsidiaries are a participant, and (3) any (a) executive officer, director or nominee for election as a director, (b) greater than 5% beneficial owner of our ordinary shares, or (c) immediate family member, of the persons referred to in clauses (a) and (b), has or will have a direct or indirect material interest (other than solely as a result of being a director or a less than 10% beneficial owner of another entity). A conflict of interest situation can arise when a person takes actions or has interests that may make it difficult to perform his or her work objectively and effectively. Conflicts of interest may also arise if a person, or a member of his or her family, receives improper personal benefits as a result of his or her position.

Our audit committee, pursuant to its written charter, is responsible for reviewing and approving related-party transactions to the extent we enter into such transactions. The audit committee will consider all relevant factors when determining whether to approve a related party transaction, including whether the related party transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party s interest in the transaction. No director may participate in the approval of any transaction in which he is a related party, but that director is required to provide the audit committee with all material information concerning the transaction. Additionally, we require each of our directors and executive officers to complete an annual directors and officers questionnaire that elicits information about related party transactions.

These procedures are intended to determine whether any such related party transaction impairs the independence of a director or presents a conflict of interest on the part of a director, employee or officer.

Related Person Transactions

Pre-Merger Related Transactions of the Company

On May 20, 2013, the A. Lorne Weil 2006 Irrevocable Trust Family Investment Trust, a trust of which A. Lorne Weil, his spouse and his descendants are among the beneficiaries, loaned us $100,000 to meet our working capital needs pending our initial business combination. This loan was evidenced by a promissory note payable upon consummation of our initial business combination, in cash without interest, or, at the holder s discretion and upon approval by our shareholders (which was obtained in connection with the Merger), by conversion into Warrants at a price of $0.50 per warrant. This note was converted into 200,000 Warrants upon consummation of the Merger.

Pre-Merger Related Transactions of TG and ES

TG

In the fiscal year ended December 31, 2013 prior to the Merger, transactions with TG shareholders resulted in TG generating $39.2 million in revenues exclusively comprised of sales to ES which was a shareholder of TG leading up to the Merger and $5.8 million in accounts receivables. Transactions with directors resulted in less than $0.1 million in accounts receivable. TG also paid its directors $0.5 million in salaries.

ES

In the fiscal year ended December 31, 2013 prior to the Merger, transactions with ES shareholders resulted in ES generating $0.2 million in revenues, $0.1 million in accounts receivables and $17.3 million in accounts payables. ES also purchased equipment from its shareholders $5,276,000. Transactions with its directors resulted in less than $0.1 million in accounts receivables and less than $0.1 million in revenues. ES paid its directors $0.8 million in salaries.

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E.S. Windows, LLC

The majority of shares of ESW LLC, a Florida limited liability company, are owned by Jose Daes, Christian Daes and Evelyn Daes. ESW LLC acts as one of ES s importers and distributors in the U.S. ESW LLC sends project specifications and orders from its clients to ES, and in turn, receiving pricing quotes from ES which are conveyed to the client. ESW LLC does not install any of our products. The Company s CEO and COO, other family members, and other related parties own 100% of the equity in ESW LLC. Sales to ESW LLC amounted to $37.1 and $28.9 million during the years ended December 31, 2014 and December 31, 2013.

Ventanas Solar S.A.

Ventanas Solar S.A. (VS), a Panama *sociedad anonima,* is an importer and installer of the Company s products in Panama. Family members of the Company s CEO and COO and other related parties own 100% of the equity in VS. The Company s sales to VS for the year ended December 31, 2014 and 2013 were $0.2 million and $7.9 million, respectively. Outstanding receivables from VS at December 31, 2014 and 2013 were $12.2 million and $10.8 million, respectively, including a long term payment agreement for trade receivables of $4.2 million as of December 31, 2014 related to a collection agreement, pursuant to which VS collects the Company s receivables from customers in Panama.

Merger Consideration

Energy Holding Corporation, the sole shareholder of Tecnoglass Holding whose shareholders are all of the former shareholders of Tecnoglass and ES, received 20,567,141 ordinary shares in consideration of all of the outstanding and issued ordinary shares of Tecnoglass Holding.

Pursuant to the agreement and plan of reorganization, we issued to Energy Holding Corp. an aggregate of 500,000 ordinary shares based on its achievement of specified EBITDA targets set forth in such agreement for the fiscal year ended December 31, 2014.

Energy Holding Corp. also has the contractual right to receive an additional 2,500,000 ordinary shares, to be released upon the attainment of specified share price targets or targets based on our EBITDA in the fiscal years ending December 31, 2015 or 2016. The following table sets forth the targets and the number of earnout shares issuable to Tecnoglass Holding shareholders upon the achievement of such targets:

	Ordinary Share Price Target	EBITDA Target		Number of Earnout Shares	
		Minimum	Maximum	Minimum	Maximum
Fiscal year ending 12/31/15	$13.00 per share	$35,000,000	$40,000,000	875,000	1,000,000
Fiscal year ending 12/31/16	$15.00 per share	$40,000,000	$45,000,000	1,333,333	1,500,000

If either the ordinary share target or the maximum EBITDA target is met in any fiscal year, Energy Holding Corporation receives the maximum number of earnout shares indicated for the year. In the event the ordinary share target is not met but the combined company s EBITDA falls within the minimum and maximum EBITDA target for a specified year, the number of earnout shares to be issued will be interpolated between such targets. In the event neither the ordinary share target nor the minimum EBITDA target is met in a particular year, but a subsequent year s share price or EBITDA target is met, Energy Holding Corporation will earn the earnout shares for the previous year as if the prior year s target had been met.

Joaquin Fernandez and Alberto Velilla Becerra are directors of Energy Holding Corporation. Jose Daes and Christian Daes are shareholders of Energy Holding Corporation.

Registration Rights

Our initial shareholders, Energy Holding Corporation, holders of the Private Warrants and Warrants issued upon conversion of the promissory note (described above) (and all underlying securities), are entitled to registration rights pursuant to an agreement entered into on December 20, 2013. The holders of a majority of these securities are entitled to make up to two demands that we register such securities, and have certain piggy-back registration rights with respect to registration statements filed subsequent to our consummation of the Merger. Pursuant to the agreement, we will bear the expenses incurred in connection with the filing of any such registration statements. All such securities were included on our Registration Statement on Form S-3 filed on February 11, 2014 and later amended on Form S-1, declared effective on June 16, 2014.

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Transfer Agreements in connection with Merger

On December 19, 2013, we entered into an agreement with an affiliate of A. Lorne Weil, our non-executive chairman of the board, and a third party shareholder pursuant to which the third party shareholder agreed to use commercially reasonable efforts to purchase up to 1,000,000 ordinary shares in the open market and agreed that it would not seek conversion or redemption of any such purchased shares in connection with the Merger. This third party shareholder and its affiliates purchased an aggregate of 985,896 ordinary shares pursuant to this agreement. Pursuant to the agreement, Mr. Weil s affiliate transferred to the third party shareholder and its affiliates an aggregate of 2,167,867 Private Warrants. Additionally, EarlyBirdCapital, Inc., our financial advisor, transferred to the third party shareholder and its affiliates certain unit purchase options, each to purchase one ordinary share and one warrant to purchase one ordinary share. We agreed to file a registration statement with the Securities and Exchange Commission covering the resale of the Warrants and shares underlying the Warrants, as well as the unit purchase options and underlying securities, transferred to the shareholder and its affiliates, which such registration statement was filed on February 11, 2014 and declared effective on June 16, 2014.

Also on December 19, 2013, we entered into subscription agreements with two investors pursuant to which such investors agreed to purchase an aggregate of 649,382 ordinary shares at $10.18 per Share, or an aggregate of $6,610,709. In connection with this purchase, the affiliate of Mr. Weil transferred an aggregate of 608,796 Private Warrants to such investors. We agreed to file a registration statement with the Securities and Exchange Commission covering the resale of the Warrants and shares underlying the Warrants, transferred to these investors, which such registration statement was filed on February 11, 2014, and agreed to use our best efforts to have such registration statement declared effective by the Securities and Exchange Commission as soon as possible. Such registration statement was declared effective on June 16, 2014.

Indemnification Agreements

Effective March 5, 2014, we entered into indemnification agreements with each of our executive officers and members of our board of directors. The indemnification agreements supplement our Third Amended and Restated Memorandum and Articles of Association and Cayman Islands law in providing certain indemnification rights to these individuals. The indemnification agreements provide, among other things, that we will indemnify these individuals to the fullest extent permitted by Cayman Islands law and to any greater extent that Cayman Islands law may in the future permit, including the advancement of attorneys fees and other expenses incurred by such individuals in connection with any threatened, pending or completed action, suit or other proceeding, whether of a civil, criminal, administrative, regulatory, legislative or investigative nature, relating to any occurrence or event before or after the date of the indemnification agreements, by reason of the fact that such individuals is or were our directors or executive officers, subject to certain exclusions and procedures set forth in the indemnification agreements, including the absence of fraud or willful default on the part of the indemnitee and, with respect to any criminal proceeding, that the indemnitee had no reasonable cause to believe his conduct was unlawful.

Private Placement with Affiliate of A. Lorne Weil

On March 5, 2014, we entered into a subscription agreement with an affiliate of A. Lorne Weil, our Non-Executive Chairman of the Board, pursuant to which such affiliate agreed to purchase an aggregate of 95,693 ordinary shares at an aggregate price of $1,000,000, or approximately $10.45 per share, representing a slight premium to the closing price of our ordinary shares immediately prior to the execution of the subscription agreement. The closing of the purchase took place on March 14, 2014. A registration statement covering the resale of these shares was declared effective on June 16, 2014.

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DESCRIPTION OF SECURITIES

General

As of the date of this Prospectus/Offer to Exchange, we are authorized to issue 100,000,000 ordinary shares, par value $0.0001, and 1,000,000 preferred shares, par value $0.0001. As of September 30, 2015, 25,833,210 ordinary shares were outstanding, held by 315 shareholders of record, and no preferred shares were outstanding. In addition, as of September 30, 2015, we had outstanding 7,817,783 Warrants, held by 15 holders of record.

Ordinary Shares

As of September 30, 2015, there are 25,833,210 ordinary shares are outstanding, held by 315 shareholders of record. Our shareholders of record are entitled to one vote for each share held on all matters to be voted on by shareholders.

Our board of directors is divided into three classes, each of which will generally serve for a term of three years with only one class of directors being elected in each year. There is no cumulative voting with respect to the election of directors, with the result that the holders of more than 50% of the shares eligible to vote for the election of directors can elect all of the directors.

Our shareholders have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the ordinary shares.

The ordinary shares are listed on the NASDAQ Capital Market under the symbol TGLS. We cannot assure you that our ordinary shares will continue to be listed on the NASDAQ Capital Market as we might not in the future meet certain continued listing standards.

Warrants

As of September 30, 2015, 7,817,783 Warrants are outstanding, including, 3,502,038 Public Warrants and 4,315,745 Private Warrants held by 15 holders of record. Each Warrant entitles the registered holder to purchase one ordinary share at a price of $8.00 per share, subject to adjustment as discussed below. The Warrants became exercisable on December 20, 2013 (the date of the consummation of our initial business combination). Warrants may be exercised for cash or, at the option of the holder, on a cashless basis pursuant to the exemption provided by Section 3(a)(9) of the Securities Act by surrendering the Warrants for that number of ordinary shares equal to the quotient obtained by dividing (x) the product of the number of ordinary shares underlying the Warrants, multiplied by the difference between the exercise price of the Warrants and the fair market value (defined below) by (y) the fair market value. The fair market value shall mean the average reported last sale price of the ordinary shares for the 10 trading days ending on the day prior to the date of exercise; provided, however, that in the event the Warrants are being called for redemption, the fair market value shall mean the average reported last sale price of the ordinary shares for the 10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of Warrants. Notwithstanding the foregoing, no public Warrants will be exercisable for cash unless we have an effective and current registration statement covering the ordinary shares issuable upon exercise of the Warrants and a current prospectus, relating to such ordinary shares. The Warrants expire December 20, 2016 (three years following the date of consummation of our initial business combination) at 5:00 p.m., New York City time.

The Private Warrants are identical to the Public Warrants except that such Warrants may be exercisable for cash even if a registration statement covering the ordinary shares issuable upon exercise of such Warrants is not effective and will not be redeemable by us, in each case so long as they are still held by the initial purchasers or their affiliates.

We may call the Warrants for redemption (excluding the Private Warrants and certain Warrants that may be issued upon exercise of outstanding unit purchase options), in whole and not in part, at a price of $0.01 per Warrant,

at any time while the Warrants are exercisable,

upon not less than 30 days prior written notice of redemption to each Warrant holder,

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if, and only if, the reported last sale price of the ordinary shares (or the closing bid price of our ordinary shares in the event the ordinary shares are not traded on any specific trading day) equals or exceeds $14.00 per share, for any 20 trading days within a 30-day trading period ending on the third business day prior to the notice of redemption to Warrant holders, and

if, and only if, there is a current registration statement in effect with respect to the ordinary shares underlying such Warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

The right to exercise will be forfeited unless the Warrants are exercised prior to the date specified in the notice of redemption. On and after the redemption date, a record holder of a Warrant will have no further rights except to receive the redemption price for such holder s Warrant upon surrender of such Warrant.

The redemption criteria for our Warrants have been established at a price which is intended to provide Warrant holders a reasonable premium to the initial exercise price and provide a sufficient differential between the then-prevailing share price and the Warrant exercise price so that if the share price declines as a result of our redemption call, the redemption will not cause the share price to drop below the exercise price of the Warrants.

The Warrants have been issued in registered form under a warrant agreement between Continental Stock Transfer & Trust Company, as warrant agent, and us. The warrant agreement provides that the terms of the Warrants may be amended without the consent of any holder to cure any ambiguity or correct any defective provision, but requires the approval, by written consent or vote, of the holders of a majority of the then outstanding Public Warrants in order to make any change that adversely affects the interests of the registered holders.

If the number of outstanding ordinary shares is increased by a share dividend payable in ordinary shares, or by a split-up of ordinary shares or other similar event, then, on the effective date of such share dividend, split-up or similar event, the number of ordinary shares issuable on exercise of each Warrant will be increased in proportion to such increase in the outstanding ordinary shares. A rights offering to holders of ordinary shares entitling holders to purchase ordinary shares at a price less than the fair market value will be deemed a share dividend of a number of ordinary shares equal to the product of (i) the number of ordinary shares actually sold in such rights offering (or issuable under any other equity securities sold in such rights offering that are convertible into or exercisable for ordinary shares) multiplied by (ii) one (1) minus the quotient of (x) the price per ordinary share paid in such rights offering divided by (y) the fair market value. For these purposes (i) if the rights offering is for securities convertible into or exercisable for ordinary shares, in determining the price payable for ordinary shares, there will be taken into account any consideration received for such rights, as well as any additional amount payable upon exercise or conversion and (ii) fair market value means the volume weighted average price of ordinary shares as reported during the ten (10) trading day period ending on the trading day prior to the first date on which the ordinary shares trade on the applicable exchange or in the applicable market, regular way, without the right to receive such rights.

In addition, if we, at any time while the Warrants are outstanding, pay a dividend or make a distribution in cash, securities or other assets to the holders of ordinary shares on account of such ordinary shares (or other shares into which the Warrants are convertible), other than (a) as described above or (b) certain ordinary cash dividends, then the Warrant exercise price will be decreased, effective immediately after the effective date of such event, by the amount of cash and/or the fair market value of any securities or other assets paid on each ordinary share in respect of such event.

If the number of outstanding ordinary shares is decreased by a consolidation, combination, reverse shares split or reclassification of ordinary shares or other similar event, then, on the effective date of such consolidation, combination, reverse shares split, reclassification or similar event, the number of ordinary shares issuable on exercise of each Warrant will be decreased in proportion to such decrease in outstanding ordinary shares. Whenever the number of ordinary shares purchasable upon the exercise of the Warrants is adjusted, as described above, the Warrant exercise price will be adjusted by multiplying the Warrant exercise price immediately prior to such adjustment by a fraction (x) the numerator of which will be the number of ordinary shares purchasable upon the exercise of the Warrants immediately prior to such adjustment, and (y) the denominator of which will be the number of ordinary shares so purchasable immediately thereafter.

In case of any reclassification or reorganization of the outstanding ordinary shares (other than those described above or that solely affects the par value of such ordinary shares), or in the case of any merger or consolidation of us with or into another corporation (other than a consolidation or merger in which we are the continuing corporation and that does not result in any reclassification or reorganization of its outstanding ordinary shares), or in the case of any sale or conveyance to another corporation or entity of our assets or other property as an entirety or substantially as an entirety in connection with which we are dissolved, the holders of the Warrants will thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in the Warrants and in lieu of ordinary shares immediately theretofore purchasable and receivable upon the exercise of the rights represented thereby, the kind and amount of shares or other securities or property (including cash) receivable upon such reclassification, reorganization, merger or consolidation, or upon a dissolution following any such sale or transfer, that the holder of the Warrants would have received if such holder had exercised their Warrants immediately prior to such event. The warrant agreement provides for certain modifications to what holders of Warrants will have the right to purchase and receive upon the occurrence of certain events, and that if more than 30% of the consideration receivable by the holders of ordinary shares in the applicable event is payable in the form of ordinary shares in the successor entity that is not listed for trading on a national securities exchange or on the OTC Bulletin Board, or is not to be so listed for trading immediately following such event, then the Warrant exercise price will be reduced in accordance with a formula specified in the warrant agreement.

The Warrants may be exercised upon surrender of the Warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the Warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price, by certified or official bank check payable to us, for the number of Warrants being exercised. The Warrant holders do not have the rights or privileges of holders of ordinary shares and any voting rights until they exercise their Warrants and receive ordinary shares. After the issuance of ordinary shares upon exercise of the Warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by shareholders.

Except as described above, no Public Warrants will be exercisable and we will not be obligated to issue ordinary shares unless at the time a holder seeks to exercise such Warrant, a prospectus relating to the ordinary shares issuable upon exercise of the Warrants is current and the ordinary shares have been registered or qualified or deemed to be exempt under the securities laws of the state of residence of the holder of the Warrants. Under the terms of the warrant agreement, we have agreed to use our best efforts to meet these conditions and to maintain a current prospectus relating to the ordinary shares issuable upon exercise of the Warrants until the expiration of the warrants.

Warrant holders may elect to be subject to a restriction on the exercise of their Warrants such that an electing Warrant holder would not be able to exercise their Warrants to the extent that, after giving effect to such exercise, such holder would beneficially own in excess of 9.8% of the ordinary shares outstanding.

No fractional shares will be issued upon exercise of the Warrants. If, upon exercise of the Warrants, a holder would be entitled to receive a fractional interest in a share, we will, upon exercise, round up or down to the nearest whole number the number of ordinary shares to be issued to the Warrant holder.

The Warrants are quoted on the OTC Pink marketplace under the symbol TGLSW.

Registration Rights

Our initial shareholders, Energy Holding Corporation, holders of the Private Warrants and Warrants issued upon conversion of the promissory note (described above) (and all underlying securities), are entitled to registration rights pursuant to an agreement entered into on December 20, 2013. The holders of a majority of these securities are entitled to make up to two demands that we register such securities, and have certain piggy-back registration rights with respect to registration statements filed subsequent to our consummation of the Merger. Pursuant to the agreement, we will bear the expenses incurred in connection with the filing of

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any such registration statements. All such securities were included on our Registration Statement on Form S-3 filed on February 11, 2014 and later amended on Form S-1, declared effective on June 16, 2014.

Our Transfer Agent and Warrant Agent

The transfer agent for our securities and warrant agent for our Warrants is Continental Stock Transfer & Trust Company, 17 Battery Place, New York, New York 10004.

LEGAL MATTERS

The validity of the ordinary shares offered in this Prospectus/Offer to Exchange is being passed upon for us by Maples and Calder, Cayman Islands. Graubard Miller, New York, New York, has provided an opinion regarding certain federal income tax matters relating to the Offer and the ordinary shares covered by this Prospectus/Offer to Exchange.

EXPERTS

The financial statements of Tecnoglass Inc. and Subsidiaries for the year ended December 31, 2013, included in this prospectus, have been audited by Marcum LLP, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere in this prospectus and are included in reliance upon such report given on the authority of Marcum LLP as an expert in auditing and accounting.

The financial statements for the year ended December 31, 2014 included in this Prospectus have been so included in reliance on the report of PricewaterhouseCoopers Ltda, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file annual, quarterly and current reports and proxy statements and other information with the SEC. Our SEC filings are available to the public through the SEC s website at *http://www.sec.gov*. You may also read and copy any document we file at the SEC s public reference room in Washington, D.C. located at 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Tecnoglass Inc.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Tecnoglass Inc. and Subsidiaries

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and comprehensive income, of shareholders equity and of cash flows present fairly, in all material respects, the financial position of Tecnoglass Inc. and its subsidiaries at December 31, 2014, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 the financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers Ltda.

PricewaterhouseCoopers Ltda.
Barranquilla, Colombia
April 15, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Shareholders
of Tecnoglass, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Tecnoglass, Inc. and Subsidiaries (the Company) as of December 31, 2013, and the related consolidated statements of income and comprehensive income, stockholders equity and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements 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 the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tecnoglass, Inc. and Subsidiaries, as of December 31, 2013, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum LLP

Marcum LLP
New York, NY
April 16, 2014, except for Note 4 to the consolidated financial statements as to which the date is April 15, 2015.

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Tecnoglass Inc. and Subsidiaries

Consolidated Balance Sheets
(In thousands, except share and per share data)

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash	$ 15,930	$ 2,866
Restricted cash		3,633
Due from transfer agent		15,908
Subscription receivable		6,611
Investments	1,209	1,353
Trade accounts receivable, net	44,955	50,928
Unbilled receivables on uncompleted contracts	9,931	11,640
Due from related parties	28,327	21,418
Advances and other receivables	5,508	13,165
Deferred income taxes	5,373	2,321
Inventories	28,965	24,181
Prepaid expenses	1,298	824
Total current assets	141,496	154,848
Long term assets:		
Property, plant and equipment, net	103,980	87,382
Long term receivables from related parties	4,220	5,722
Other long term assets	6,195	262
Total long term assets	114,395	93,366
Total assets	$ 255,891	$ 248,214
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities and shareholders equity		
Current liabilities		
Short-term debt and current portion of long-term debt	$ 54,925	$ 29,720
Note payable to shareholder	80	80
Trade accounts payable	33,493	29,285
Due to related parties	1,456	8,397
Taxes payables	7,930	4,847
Deferred income taxes	8,416	6,698
Labor liabilities	449	6
Accrued liabilities and provisions	505	994
Current portion of customer advances on uncompleted contracts	5,782	28,470
Total current liabilities	113,036	108,497

Warrant liability	19,991	18,280
Customer advances on uncompleted contracts	8,333	8,220
Long-term debt	39,273	48,097
Total long term liabilities	67,597	74,597
Total liabilities	180,633	183,094

The accompanying notes are an integral part of these consolidated financial statements.

Tecnoglass Inc. and Subsidiaries Consolidated Balance Sheets (In thousands, except share and per share data) 129

Tecnoglass Inc. and Subsidiaries

Consolidated Balance Sheets (continued)
(In thousands, except share and per share data)

	December 31, 2014	December 31, 2013
Commitments and contingencies		
Shareholders equity		
Preferred shares, $0.0001 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at December 31, 2014 and 2013		
Ordinary shares, $0.0001 par value, 100,000,000 shares authorized, 24,801,132 and 24,214,670 shares issued and outstanding at December 31, 2014 and 2013, respectively	$2	$2
Legal reserves	1,367	1,367
Additional paid capital	46,514	40,693
Retained earnings	38,806	18,488
Accumulated other comprehensive income	(11,431)	4,570
Total shareholders equity	75,258	65,120
Total liabilities and shareholders equity	$255,891	$248,214

The accompanying notes are an integral part of these consolidated financial statements.

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Tecnoglass Inc. and Subsidiaries

Consolidated Statements of Income and Comprehensive Income (In thousands, except share and per share data)

	Years ended December 31, 2014	2013
Operating revenues:		
Customers	$149,822	$154,506
Related parties	47,630	28,788
Total operating revenues	197,452	183,294
Cost of sales	136,021	127,875
Gross profit	61,431	55,419
Operating expenses:		
Selling	17,872	17,287
General and administration	16,327	10,862
Operating expenses net	34,199	28,149
Operating income	27,232	27,270
Change in fair value of warrant liability	(1,711)	7,626
Non-operating revenues	12,235	3,998
Interest expense	(8,900)	(7,886)
Income before taxes	28,856	31,008
Income tax provision	8,538	8,696
Net income	$20,318	$22,312
Comprehensive income:		
Net income	$20,318	$22,312
Foreign currency translation adjustments	(16,001)	(953)
Total comprehensive income	$4,317	$21,359
Basic income per share	$0.83	$1.08
Diluted income per share	$0.73	$1.08
Basic weighted average common shares outstanding	24,347,620	20,677,067
Diluted weighted average common shares outstanding	27,737,679	20,714,275

The accompanying notes are an integral part of these consolidated financial statements.

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Tecnoglass Inc. and Subsidiaries

Consolidated Statements of Cash Flows (In thousands)

	Years Ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$20,318	$22,312
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for bad debts	20	265
Provision for obsolete inventory	(1,036)	1,483
Change in fair value of investments held for trading	168	
Depreciation and amortization	8,542	7,238
Loss on disposition of assets	1,300	
Change in value of derivative liability	(25)	
Change in fair value of warrant liability	1,711	(7,626)
Deferred income taxes	(915)	4,513
Changes in operating assets and liabilities:		
Receivables	(5,002)	(20,891)
Deferred income taxes	466	98
Inventories	(10,696)	(6,143)
Prepaid expenses	(761)	646
Other assets	1,852	1,002
Trade accounts payable	11,846	(11,216)
Taxes payable	4,817	1,151
Labor liabilities	530	(16)
Accrued liabilities and provisions	(352)	(598)
Related parties	(19,132)	375
Advances from customers	(18,461)	18,141
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(4,810)	10,734
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	825	3,222
Proceeds from sale of property and equipment	3,609	
Cash acquired from Andina Acquisition Corporation		3
Purchase of investments	400	(107)
Acquisition of property and equipment	(24,848)	(20,001)
Restricted cash	3,633	(3,746)
CASH USED IN INVESTING ACTIVITIES	(16,381)	(20,629)
CASH FLOWS FROM FINANCING ACTIVITIES		

Proceeds from debt	87,109	21,237
Proceeds from the sale of common stock	1,000	
Proceeds from the exercise of warrants	821	
Repayments of debt	(77,924)	(12,865)
Merger proceeds held in trust	22,519	
CASH PROVIDED BY FINANCING ACTIVITIES	33,525	8,372
Effect of exchange rate changes on cash and cash equivalents	730	2,254

The accompanying notes are an integral part of these consolidated financial statements.

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Tecnoglass Inc. and Subsidiaries Consolidated Statements of Cash Flows (In thousands) 133

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Tecnoglass Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued) (In thousands)

	Years Ended December 31,	
	2014	2013
NET INCREASE (DECREASE) IN CASH	13,064	731
CASH Beginning of year	2,866	2,135
CASH End of year	$ 15,930	$ 2,866
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 7,451	$ 7,303
Taxes	$ 3,101	$ 4,183
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Assets acquired under capital lease and financial obligations	$ 27,778	$ 17,686
Assets acquired with issuance of debt	$ 4,000	$

The accompanying notes are an integral part of these consolidated financial statements.

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Tecnoglass, Inc. and Subsidiaries

Consolidated Statements of Shareholders Equity For the Years Ended December 31, 2014 and 2013 (In thousands, except share data)

The accompanying notes are an integral part of these consolidated financial statements.

Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 1. Organization, Plan of Business Operation

Tecnoglass Inc. (TGI, the Company, we, us or our) was incorporated in the Cayman Islands on September 21, under the name Andina Acquisition Corporation (Andina) as a blank check company. Andina s registration statement for its initial public offering (the Public Offering) was declared effective on March 16, 2012. Andina consummated the Public Offering, the private placement of warrants (Private Placement) and the sale of options to the Underwriters on March 22, 2012, receiving proceeds, net of transaction costs, of $43,163, of which $42,740 was placed in a trust account.

Andina s objective was to acquire, through a merger, share exchange, asset acquisition, share purchase recapitalization, reorganization or other similar business combination, one or more operating businesses. On December 20, 2013, Andina consummated a merger transaction (the Merger) with Tecno Corporation (Tecnoglass Holding) as ultimate parent of Tecnoglass S.A. (TG) and C.I. Energía Solar S.A. ES. Windows (ES). The surviving entity was renamed Tecnoglass Inc. The Merger transaction was accounted for as a reverse merger and recapitalization where Tecnoglass Holding was the acquirer and TGI was the acquired company.

The Company manufactures hi-specification, architectural glass and windows for the global residential and commercial construction industries. Currently the Company offers design, production, marketing, and installation of architectural systems for buildings of high, medium and low elevation size. Products include windows and doors in glass and aluminum, office partitions and interior divisions, floating façades and commercial window showcases. The Company sells to customers in North, Central and South America, and exports about half of its production to foreign countries.

TG manufactures both glass and aluminum products. Its glass products include tempered glass, laminated glass, thermo-acoustic glass, curved glass, silk-screened glass, acoustic glass and digital print glass. Its Alutions plant produces mill finished, anodized, painted aluminum profiles and rods, tubes, bars and plates. Alutions operations include extrusion, smelting, painting and anodizing processes, and exporting, importing and marketing aluminum products.

ES designs, manufactures, markets and installs architectural systems for high, medium and low rise construction, glass and aluminum windows and doors, office dividers and interiors, floating facades and commercial display windows.

In 2014, the Company established two Florida limited liability companies, Tecnoglass LLC (Tecno LLC) and Tecnoglass RE LLC (Tecno RE) to acquire manufacturing facilities, manufacturing machinery and equipment, customer lists and exclusive design permits.

Note 2. Reverse Merger

The Company entered into an Agreement and Plan of Reorganization (the Merger Agreement) as of August 17, 2013. Pursuant to the Merger Agreement, on the closing date of December 20, 2013 (the Closing), the former Tecnoglass Holding shareholders, through an intermediary entity, received, as consideration for all ordinary shares of Tecnoglass Holding they held: (i) an aggregate of 20,567,141 ordinary shares of the Company, par value $0.0001 per share (Ordinary Shares) at the Closing; and (ii) up to an aggregate of 3,000,000 additional Ordinary Shares (Earnout Shares) of the Company to be released after the Closing as described below.

At the Closing, the Company had 3,647,529 ordinary shares outstanding with a net tangible book value of ($3,526). The net tangible book value consisted of a stock subscription receivable aggregating $6,610, amount due from the transfer agent of $15,909, liabilities of $139 and a warrant liability of $25,906. The balance due from the transfer agent is net of $22,915 paid, from the proceeds of $42,740 held in the trust account, to the holders of 2,251,853 public shares electing not to participate in the business combination. In addition, transaction expenses of approximately $3.9 million were also paid. The balance of $15,909 is

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 2. Reverse Merger (continued)

available for working capital and is classified on the balance sheet at December 31, 2013 as Due from Transfer Agent. The funds were received from the Transfer Agent in January 2014.

Prior to the business combination the Company entered into subscription agreements with two investors pursuant to which such investors purchased 649,382 ordinary shares of for an aggregate price of $6,610. As of December 31, 2013 such amount has been classified as a subscription receivable. The proceeds were received in January 2014.

The Merger Agreement was accounted for as a reverse merger and recapitalization where Tecnoglass Holding was the acquirer and TGI was the acquired company. Accordingly, the historical financial statements presented are the consolidated financial statements of Tecnoglass Holding. The ordinary shares and the corresponding capital amounts of the Company pre-merger have been retroactively restated as ordinary shares reflecting the exchange ratio in the merger.

The Earnout Shares have been issued and placed in escrow to be released to the former shareholders of Tecnoglass Holding s upon the achievement of specified share price targets or targets based on Tecnoglass Holding s net earnings before interest income or expense, income taxes, depreciation, amortization and any expenses arising solely from the Merger charged to income (EBITDA) in the fiscal years ending December 31, 2014, 2015 or 2016. The following table sets forth the targets and the number of Earnout Shares issuable to the former shareholders of Tecnoglass Holding s upon the achievement of such targets:

	Ordinary Share Price Target	EBITDA Target		Number of Earnout Shares	
		Minimum	Maximum	Minimum	Maximum
Fiscal year ending 12/31/14	$ 12.00 per share	$ 30,000	$ 36,000	416,667	500,000
Fiscal year ending 12/31/15	$ 13.00 per share	$ 35,000	$ 40,000	875,000	1,000,000
Fiscal year ending 12/31/16	$ 15.00 per share	$ 40,000	$ 45,000	1,333,333	1,500,000

If either the ordinary share target or the maximum EBITDA target is met in any fiscal year, the former shareholders of Tecnoglass Holding s receive the maximum number of Earnout Shares indicated for the year.

In the event the ordinary share target is not met but the combined company s EBITDA falls within the minimum and maximum EBITDA target for a specified year, the number of Earnout Shares to be issued will be interpolated between such targets.

In the event neither the ordinary share target nor the minimum EBITDA target is met in a particular year, but a subsequent year s share price or EBITDA target is met, the former shareholders of Tecnoglass Holding s will earn the Earnout Shares for the previous year as if the prior year s target had been met.

The Company and the former shareholders of Tecnoglass Holdings have agreed to indemnify and hold harmless the other for their inaccuracies or breaches of the representations and warranties or for the non-fulfillment or breach of any covenant or agreement contained in the Merger Agreement and for certain other matters. To provide a fund for payment to the Company with respect to its post-closing rights to indemnification under the Merger Agreement, an aggregate of 890,000 of the Ordinary Shares issuable to the Tecnoglass Holding shareholders were placed in escrow with an independent escrow agent at closing. The escrow fund will be the sole remedy for the Company for its rights to indemnification under the Merger Agreement. On the date that is the earlier of (i) 30 days after the date on which the Company has filed its Annual Report on Form 10-K for its 2014 fiscal year or (ii) June 30, 2015, the shares remaining in such escrow fund will be released to the former shareholders of Tecnoglass Holding s except for any shares subject to pending claims and certain other matters.

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 3. Summary of significant accounting policies

Basis of Presentation and Use of Estimates

These consolidated financial statements include the consolidated results of TGI, its indirect wholly-owned subsidiaries TG and ES, and its direct subsidiaries Tecno LLC and Tecno RE. Material intercompany accounts, transactions and profits are eliminated in consolidation. These financial statements include adjustments of a normal recurring nature considered necessary by management for a fair presentation of the Company s consolidated financial position, results of operations and cash flows. Estimates inherent in the preparation of these consolidated financial statements relate to the collectability of account receivables, the valuation of inventories, estimated earnings on uncompleted contracts, useful lives and potential impairment of long-lived assets, and valuation of warrants and other derivative financial instruments.

The results of TGI, as the acquired company in the reverse merger, have been included for the period after the reverse merger on December 20, 2013 to the reporting date December 31, 2013.

Foreign Currency Translation

The consolidated financial statements are presented in United States Dollars, the reporting currency. The functional currency of the Company s operations in Colombia is the Colombian Peso. The consolidated financial statements of the Company s foreign operations are prepared in the functional currency. The Statements of Income and Comprehensive Income prepared in the functional currency are translated into the reporting currency using average exchange rates for the respective periods. Assets and liabilities on the consolidated Balance Sheets are translated into the reporting currency using rates of exchange at the end of the period and the related translation adjustments are recorded as Accumulated other comprehensive income, a component of Equity in the consolidated Balance Sheet. Transaction and remeasurement gains or losses resulting from foreign currency transactions are recorded in the consolidated Statement of Operations.

Revenue Recognition

The Company generates revenue from product sales of manufactured glass and aluminum products. Revenue is recognized when persuasive evidence of an arrangement exists, a price has been fixed, delivery has occurred per the terms of the customer order, and collectability of the sale is reasonably assured. All revenue is recognized net of discounts, returns and allowances. Evidence of an arrangement consists of a contract or purchase order approved by the customer and accepted by the Company.

Payments received from customers in advance of delivery are recorded as advances from customers at the time payment is received.

Product Sales

The Company recognizes revenue when goods are shipped, which is FOB shipping point. Delivery to the customer is deemed to have occurred when the customer takes title to the product. Generally, title passes to the customer upon shipment, but title transfer may occur when the customer receives the product based on the terms of the agreement with the customer.

The selling prices of all goods that the Company sells are fixed and agreed to with the customer prior to shipment. Selling prices are generally based on established list prices. The Company does not customarily permit its customers to return any of its products for monetary refunds or credit against completed or future sales.

Contract Sales

Revenues from fixed price contracts are recognized using the percentage-of-completion method, measured by the percentage of costs incurred to date to total estimated costs for each contract. Revenues recognized in advance of amounts billable pursuant to contracts terms are recorded as unbilled receivables on uncompleted contracts based on work performed and costs to date. Unbilled receivables on uncompleted contracts are

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 3. Summary of significant accounting policies (continued)

billable upon various events, including the attainment of performance milestones, delivery of product and/or services, or completion of the contract. Revisions to cost estimates as contracts progress have the effect of increasing or decreasing expected profits each period. Changes in contract estimates occur for a variety of reasons, including changes in contract scope, estimated revenue and cost estimates. Provisions for anticipated losses are recorded in the period in which they become determinable. No provisions have been recorded for losses on uncompleted contracts for the years ended December 31, 2014 and 2013.

Standard Form Sales

The Company recognizes revenue for standard form sales once the installation is complete. Standard form sales are customer sales comprising low value installations that are of short duration.

A standard form agreement is executed between the Company and its customer. Services are performed by the Company during the installation process. The price quote is determined by the Company, based on the requested installation, and approved by the customer before the Company proceeds with the installation. The customer s credit worthiness and payment capacity is evaluated before the Company will proceed with the initial order process.

Sales Tax and Value Added Taxes

The Company accounts for sales taxes and value added taxes imposed on its goods and services on a net basis value added taxes paid for goods and services purchased is netted against value added tax collected from customers and the net amount is paid to the government. The current value added tax rate in Colombia for all of the Company s products is 16%. A municipal industry and commerce tax (ICA) sales tax of 0.7% is payable on all of the Company s products sold in the Colombian market.

Product Warranties

The Company offers product warranties in connection with the sale and installation of its products that are competitive in the markets in which the products are sold. Standard warranties depend upon the product and service, and are generally from five to ten years for architectural glass, curtain wall, laminated and tempered glass, window and door products. Warranties are not priced or sold separately and do not provide the customer with services or coverages in addition to the assurance that the product complies with original agreed-upon specifications. Claims are settled by replacement of the warrantied products.

Non Operating Revenues

The Company recognizes non-operating revenues from foreign currency transaction gains and losses, interest income on receivables, proceeds from sales of scrap materials and other activities not related to the Company s operations. Foreign currency transaction gains and losses occur when monetary assets, liabilities, payments and receipts that are denominated in currencies other than the Company s functional currency are recorded in the Colombian peso accounts of the Company in Columbia. During the years ended December 31, 2014 and 2013, the Company recorded net gains from foreign currency transactions of $10,790 and $1,311, respectively.

The Company does not accrue contingent liabilities for estimated losses from product warranty obligations because the information available to the Company does not indicate that it is probable that customers will make claims under warranties for window products that have been sold. The amount of losses cannot be reasonably estimated. USGAAP guidance indicates that an inability to make a reasonable estimate of the amount of a warranty obligation at the time of sale because of significant uncertainty about possible claims precludes accrual. Actual losses from replacements under warranties do not appear to be material and are systematically accounted for as cost of product sold.

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 3. Summary of significant accounting policies (continued)

Cash and Cash Equivalents

All liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents. Cash equivalents are stated at cost, which approximates market value. At December 31, 2014 the Company had no cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist primarily of cash and trade accounts receivable. The Company mitigates its cash risk by maintaining its cash deposits with major financial institutions in Colombia and the Cayman Islands. At times the balances held at financial institutions in Colombia may exceed the Colombia government insured limits of the Ministerio de Hacienda y Crédito Público. The Company has not experienced such losses in such accounts. As discussed below, the Company mitigates its risk to trade accounts receivable by performing on-going credit evaluations of its customers.

Trade Accounts Receivable

Trade accounts receivable are recorded net of allowances for cash discounts for prompt payment, doubtful accounts and sales returns. Estimates for cash discounts and sales returns are based on contractual terms, historical trends and expectations regarding the utilization rates for these clients.

The Company s policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the collectability of an account may be in doubt. Other factors that the Company considers include its existing contractual obligations, historical payment patterns of its customers and individual customer circumstances, and a review of the local economic environment and its potential impact on the collectability of accounts receivable. Account balances deemed to be uncollectible are charged to the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. As of the years ended December 31, 2014 and 2013, the reserve for doubtful accounts was $110 and $403, respectively.

Inventories

Inventories, which consist primarily of purchased and processed glass, aluminum, parts and supplies held for use in the ordinary course of business, are valued at the lower of cost or market. Cost is determined using a weighted-average method. Inventory consisting of certain job specific materials not yet installed are valued using the specific identification method.

Reserves for excess or slow-moving raw materials inventories are updated based on historical experience of a variety of factors including sales volume and levels of inventories at the end of the period. The Company s reserve for excess or slow-moving inventories at December 31, 2014 and 2013 amounted to $292 and $1,438, respectively. The Company does not maintain allowances for the lower of cost or market for inventories of finished products as its products are manufactured based on firm orders rather than built-to-stock.

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 3. Summary of significant accounting policies (continued)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Significant improvements and renewals that extend the useful life of the asset are capitalized. Repairs and maintenance are charged to expense as incurred. When property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any related gains or losses are included in income as a reduction to or increase in selling, general and administrative expenses. Depreciation is computed on a straight-line basis, based on the following estimated useful lives:

Buildings	20 years
Machinery and equipment	10 years
Furniture and fixtures	10 years
Office equipment and software	5 years
Vehicles	5 years

Long Lived Assets

The Company periodically reviews the carrying values of its long lived assets when events or changes in circumstances would indicate that it is more likely than not that their carrying values may exceed their realizable values, and record impairment charges when considered necessary.

When circumstances indicate that impairment may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its estimated fair value, is recognized. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Common Stock Purchase Warrants

The Company classifies as equity any warrants contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the Company s control) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

The Company assesses classification of its common stock purchase warrants and other freestanding derivatives, if any, at each reporting date to determine whether a change in classification between assets and liabilities is required.

Warrant liability

An aggregate 9,200,000 warrants were issued as a result of the Public Offering, the Private Placement and the Merger. Of the aggregate total, 4,200,000 warrants were issued in connection with the Public Offering (IPO Warrants), 4,800,000 warrants were issued in connection with the Private Placement (Insider Warrants), and 200,000 warrants were issued upon conversion of a promissory note at the closing of the Merger (Working Capital Warrants). The Company classifies the warrant instruments as a liability at their fair value because the warrants do not meet the criteria for equity treatment under guidance contained in ASC 815-40-15-7D. The aggregate liability is subject to re-measurement at each balance sheet date and adjusted at each reporting period until exercised or expired, and any change in fair value is recognized in the Company s consolidated statement of operations.

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Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 3. Summary of significant accounting policies (continued)

Following the SEC s Notice of Effectiveness dated June 16, 2014 of the Company s registration statement on Form S-1 that registered the IPO Warrants and the Working Capital Warrants, an aggregate of 102,570 Warrants have been exercised as of December 31, 2014. See more about the Company s registration statement at Note 18.

Stock-Based Compensation

The Company accounts for share-based awards exchanged for employee services at the estimated grant date fair value of the award. At December 31, 2014 and 2013, no share-based awards had been granted to employees.

Derivative Financial Instruments

The Company records all derivatives on the balance sheet at fair value, regardless of the purpose or intent for holding them. The Company has not designated its derivatives as hedging instruments, therefore, the Company does not designate them as fair value or cash flow hedging instruments. The accounting for changes in fair value of the derivatives is recorded within earnings.

Advertising Costs

Advertising costs are expensed as they are incurred and are included in general and administrative expenses. Advertising costs for the years ended December 31, 2014 and 2013 amounted to approximately $383 and $255, respectively.

Income Taxes

The Company s operations in Colombia are subject to the taxing jurisdiction of the Republic of Colombia. Tecnoglass LLC and Tecnoglass RE LLC are subject to the taxing jurisdiction of the United States. TGI and Tecnoglass Holding are subject to the taxing jurisdiction of the Cayman Islands. Annual tax periods prior to December 2013 are no longer subject to examination by taxing authorities in Colombia.

The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material changes to its financial position. There are no significant uncertain tax positions requiring recognition in the Company s consolidated financial statements. The Company records interest and penalties, if any, as a component of income tax expense.

The Company accounts for income taxes under the asset and liability model (ASC 740 Income Taxes) and recognizes deferred tax assets and liabilities for the expected impact of differences between the financial statements and tax bases of assets and liabilities and for the expected future tax benefit to be derived from tax loss and tax credit carry forwards. A valuation allowance is established when management determines that it is more likely than not that all or a portion of deferred tax assets will not be realized.

ASC 740 also clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material changes to its financial position. Based on the Company s evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company s consolidated financial statements. The Company records interest and penalties, if any, as a component of income tax expense.

Earnings per Share

The Company computes basic earnings per share is computed by dividing net income by the weighted-average number of ordinary shares outstanding during the period. Income per share assuming dilution (diluted earnings per share) would give effect to dilutive options, warrants, and other potential

Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 3. Summary of significant accounting policies (continued)

ordinary shares outstanding during the period. Basic loss per share is computed by dividing loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share excludes options, warrants and other potential ordinary shares outstanding, since the effect is anti-dilutive. The calculation of the weighted-average number of ordinary shares includes 20,567,141 recapitalized shares, assumed to be outstanding as of January 1, 2013, and 3,647,529 ordinary shares of Andina Acquisition outstanding at the time of the Merger. The computation of basic and diluted income per share for the years ended January 1, 2014 and 2013 excludes the effect of Unit Purchase Options to purchase 900,000 units (consisting of one warrant and one ordinary share) because their inclusion would be anti-dilutive.

The following table sets forth the computation of the basic and diluted earnings per share for the years ended December 31, 2014 and 2013:

	December 31, 2014	2013
Numerator for basic and diluted earnings per shares		
Net Income	20,318	22,312
Denominator		
Denominator for basic earnings per ordinary share weighted average shares outstanding	24,347,620	20,677,067
Effect of dilutive warrants	3,390,059	37,208
Denominator for diluted earnings per ordinary share weighted average shares outstanding	27,737,679	20,714,275
Basic earnings per ordinary share	0.83	1.08
Diluted earnings per ordinary share	0.73	1.08

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASU 201-09). ASU 201-09 provides guidance for revenue recognition and affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of ASU 2014-09 is the recognition of revenue when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for fiscal years beginning after December 15, 2016 and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Early adoption is not permitted. The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company s consolidated financial statements and disclosures.

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Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 4. Revision to prior year financial statements

The Company revised the presentation of trade accounts receivable, due from related parties and long term receivables from related parties in its consolidated financial statement balance sheets for the year ending December 31, 2013 to reflect amounts due the Company that had not been reconciled and recorded on a timely basis into the correct balance sheet accounts. The Company subsequently executed a long term payment agreement as of December 31, 2014 with related party Ventanas Solar. The correction of the error did not affect previously reported net income in either of the years ended December 31, 2013 or 2014.

A tabular summary of the revisions to correct these errors is presented below:

	Consolidated Balance Sheet Year ended December 31, 2013		
	Previously Reported	Revisions	Revised Reported
Trade accounts receivables, net	59,010	(8,082)	50,928
Due from related parties	19,058	2,360	21,418
Total current assets	160,570	(5,722)	154,848
Long term receivables from related parties		5,722	5,722
Total assets	248,214		248,214
Net income	22,312		22,312

The Company revised financial statements to separately present related party revenues on the face of the consolidated statement of income, which were previously disclosed in Note 15. The Company also revised certain footnote disclosures in the financial statements filed with our annual report for the year ended December 31, 2014. We revised Note 21 to include geographic information about long lived assets, Note 6 to complement disclosures about long-term debt by including a description of the assets pledged to secure debt agreements and Note 20 to complement disclosures of the accounting treatment of assets acquired.

The Company analyzed the errors under SEC staff guidance (Staff Accounting Bulletin 108 and Staff Accounting Bulletin 99) and determined that the errors are immaterial on a quantitative and qualitative basis and that it is probable that the judgment of a reasonable person relying upon the financial statements would not have been changed or influenced by the inclusion or correction of the items in the year ended December 31, 2013.

Note 5. Variable Interest Entities

The Company conducted an evaluation as a reporting entity of its involvement with certain significant related party business entities as of December 31, 2013 and 2014 in order to determine whether these entities were variable interest entities requiring consolidation or disclosures in the financial statements of the Company. The Company evaluated two entities with whom it has maintained significant commercial relationships since 2004.

ES Windows LLC (ESW LLC), a Florida LLC, imports and resells the Company s products in the United States and acts as a freight forwarder for certain raw materials inventory purchased in the United States. The Company s CEO and COO, other family members, and other related parties own 100% of the equity in ESW LLC. The Company s sales to ESW LLC for the years ended December 31, 2014 and 2013 were $37.1 million and $28.9 million, respectively. Outstanding receivables from ESW LLC at December 31, 2014 and December 31, 2013 were $13.8 million and $11.8 million, respectively.

Ventanas Solar S.A. (VS), a Panama sociedad anonima, is an importer and installer of the Company s products in Panama. Family members of the Company s CEO and CFO and other related parties own 100% of the equity in VS. The Company s sales to VS for the year ended December 31, 2014 and 2013 were $0.2 million and $7.9 million respectively. Outstanding receivables from VS at December 31, 2014 and 2013 were $12.2 million and $10.8 million respectively, including a three year payment agreement for trade

Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 5. Variable Interest Entities (continued)

receivables for $4.2 million as of December 31, 2014 related to a collection agreement, pursuant to when VS collects the Company s receivables from customers in Panama.

Management evaluated several factors, including whether (i) these entities required subordinated financial support from the Company in order to operate, (ii) what variable interests existed in the risks and operations of the entities, (iii) what explicit or implicit interests the Company had in these entities as a result of the significant commercial relationships, (iv) whether the Company or its related parties had the controlling financial interests in these entities, and as a result, (v) who were the primary beneficiaries of those controlling variable interests. In order to evaluate these considerations, the Company analyzed the designs and initial purposes of these entities using available quantitative information, qualitative factors and guidance under ASC 810-10-25 Consolidation and related Subsections.

As of the date of the initial evaluation and for the year ended December 31, 2014, the Company concluded that (i) both entities are deemed variable interest entities because of the presence and effect of significant related parties; (ii) neither variable interest entity requires subordinated financial support for its operations as these operations are designed to provide residual returns to their equity investors, (iii) the Company s explicit variable interests are its arms-length commercial relationships which do not absorb the entities risks and variability, (iv) that neither the Company nor its related parties had the controlling financial interests but that, as a related party group, they had controlling financial interest, and finally (v) the CEO, COO, family members and other equity investors are more closely related to the ESW LLC and VS and were therefore the primary beneficiaries of those entities variable interests and residual returns or eventual losses, not the Company. The Company concluded that consolidation of these entities was not indicated. No subordinated financial support has been provided to these entities as of December 31, 2014 or as of December 31, 2013.

Note 6. Fair Value of Financial Instruments

The carrying amounts of the Company s financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and advances from customers approximate their fair value due to their relatively short-term maturities. The Company bases its fair value estimate for long term debt obligations on its internal valuation that all debt is floating rate debt based on current interest rates in Colombia.

Note 7. Trade Accounts Receivable

Trade accounts receivable consists of the following:

	December 31,	
	2014	2013
Trade accounts receivable	$ 45,065	$ 51,331
Less: Allowance for doubtful accounts	(110)	(403)
	$ 44,955	$ 50,928

The changes in allowances for doubtful accounts for the years ended December 31, 2014 and 2013 are as follows:

	December 31,	
	2014	2013
Balance at beginning of year	$ 403	$ 273
Provision for bad debts	20	265
Deductions and write-offs	(313)	(135)
Balance at end of year	$ 110	$ 403

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Note 8. Advances and Other Receivables

	December 31,	
	2014	2013
Advances to Suppliers and Loans	$ 1,353	$ 8,310
Prepaid Income Taxes and Social Contributions	$ 3,376	$ 2,281
Employee Receivables	$ 552	$ 374
Other Creditors	$ 227	$ 2,200
	$ 5,508	$ 13,165

Included in advances to suppliers and loans is a loan to Finsocial, a company that makes loans to public school system teachers. At December 31, 2014 and 2013, the loan balances were $2,255 and $4,308 respectively.

Note 9. Inventories

Inventories are comprised of the following

	December 31, 2014	December 31, 2013
Raw materials	$ 22,421	$ 17,121
Work in process	2,136	3,243
Finished goods	2,158	2,741
Stores and spares	2,371	2,404
Packing material	171	110
	29,257	25,619
Less: inventory allowances	(292)	(1,438)
	$ 28,965	$ 24,181

Note 10. Property, Plant and Equipment

Property, plant and equipment comprises the following:

	December 31, 2014	December 31, 2013

Building	$ 36,228	$ 34,710
Machinery and equipment	76,497	61,539
Office equipment and software	2,868	3,221
Vehicles	1,412	1,193
Furniture and fixtures	1,651	1,888
Total property, plant and equipment	118,656	102,551
Accumulated depreciation and amortization	(31,646)	(27,403)
Net value of property and equipment	87,010	75,148
Land	16,970	12,234
Total property, plant and equipment, net	$ 103,980	$ 87,382

Depreciation and amortization expense inclusive of capital lease amortization was $8,542 and $7,238 for the years ended December 31, 2014 and 2013.

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 10. Property, Plant and Equipment (continued)

In the year ended December 31, 2014 the Company purchased land adjacent to the Company s current facilities for approximately $6.1 million and purchased land and warehouses in Miami-Dade County, Florida for approximately $5.2 million. These purchases bring the Company s total manufacturing facilities to approximately 2.5 million square feet.

Note 11. Long-Term Debt

Long-term debt is comprised of the following:

	December 31, 2014	December 31, 2013
Obligations under borrowing arrangements	$ 94,198	$ 77,817
Less: Current portion of long-term debt and other current borrowings	54,925	29,720
Long-term debt	$ 39,273	$ 48,097

At December 31, 2014, the Company owed approximately $94,198 under its various borrowing arrangements with several banks in Colombia and Panama including obligations under various capital leases as discussed below. The bank obligations have maturities ranging from nine months to 15 years that bear interest at rates ranging from 4.56% to 12.01%. These loans are generally secured by substantially all of the Company s accounts receivable or inventory, except for the 15-year mortgage secured by the Company s real properties in Miami-Dade County. Certain obligations include covenants and events of default including requirements that the Company maintain a minimum debt to EBITDA ratio, a minimum debt service ratio, total debt to total assets ratio and sales growth ratios.

The Company was not in compliance with certain financial covenants as of December 31, 2013 for its financial obligations with Banco Colpatria. In April 2014, the bank confirmed with the Company it would take no actions to accelerate payments, increase interest, or any other actions as a result of the non-compliance with the covenants against the Company. In December 2014, the loan agreement with Colpatria was modified to exclude covenants as a basis for underwriting compliance. At December 31, 2014, the Company was in compliance with all its covenants for its financial obligations.

The company had $7,362 and $2,931 of property plant and equipment as well as $435 and $0 of other long term assets pledged to secure $26,856 and $27,596 under various lines of credit as of December 31, 2014 and 2013, respectively. The terms of the line of credit agreements do not restrict the company s operation and use of the assets.

Net proceeds from debt were $9,185 and $8,372 during the years ended December 31, 2014 and 2013, consisting of $87,109 and $21,237 new obligations entered with similar terms to existing debt, and repayments of debt for $77,924 and $12,865 for the years ended December 31, 2014 and 2013, respectively.

Maturities of long term debt and other current borrowings are as follows as of December 31, 2014:

Year Ending December 31,	
2015	$ 51,101
2016	11,690
2017	6,538
2018	3,815
2019	2,170
Thereafter	3,379
Total	$ 78,693

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 11. Long-Term Debt (continued)

Revolving Lines of Credit

The Company has approximately $1.9 million available in two lines of credit under a revolving note arrangement as of December 31, 2014. The floating interest rates on the revolving notes are between DTF+6% and DTF+7%. DTF is the primary measure of interest rates in Colombia. The notes are secured by all assets of the Company. At December 31, 2014 and 2013, $375 and $1,872 was outstanding under these lines, respectively.

Capital Lease Obligations

The Company is obligated under various capital leases under which the aggregate present value of the minimum lease payments amounted to approximately $15,505. The present value of the minimum lease payments was calculated using discount rates ranging from 7.94% to 12.20%.

The future minimum lease payments under all capital leases at December 31, 2014 are as follows:

Year Ending December 31,	
2015	$ 3,824
2016	3,621
2017	2,412
2018	1,141
2019	1,366
Thereafter	3,141
Total	$ 15,505

Interest expense for the year ended December 31, 2014 and 2013 was $8.9 million and $7.9 million, respectively.

Note 12. Note Payable to Shareholder

From September 5, 2013 to November 7, 2013 A. Lorne Weil loaned the Company $150 of which $70 was paid at closing of the Merger and $80 remained unpaid as of December 31, 2014 and December 31, 2013.

Note 13. Income Taxes

The Company files income tax returns for TG and ES in the Republic of Colombia where, as a general rule, taxable income for companies is subject to a 25% Income Tax rate, except for taxpayers with special rates approved by the Congress. A minimum taxable income is calculated as 3% of net equity on the last day of the immediately preceding period and is used as taxable income if it is higher than taxable income otherwise calculated.

On December 23, 2014, Colombia s president signed into effect a tax reform bill amending the Colombian Tax Statute fixing the Income Tax Rate at 25%. A CREE Tax based on taxable income also applies at a rate of 9% to certain taxpayers including the Company. Prior to the reform, the CREE Tax would only apply for years 2013 2015. The reform makes the CREE tax rate of 9% permanent and an additional CREE Surtax will also apply for the years 2015 through 2018 at varying rates. The Income tax reform resulted in deferred tax liabilities being increased by $286 at December 31, 2014 when compared with previous income tax rates.

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 13. Income Taxes (continued)

The following table summarizes income tax rates under the tax reform law.

	2015	2016	2017	2018	2019
Income Tax	25 %	25 %	25 %	25 %	25 %
CREE Tax	9 %	9 %	9 %	9 %	9 %
CREE Surtax	5 %	6 %	8 %	9 %	
Total Tax on Income	39 %	40 %	42 %	43 %	34 %

The components of income tax expense (benefit) are as follows:

	December 31, 2014	December 31, 2013
Current income tax		
Foreign	$ 9,453	$ 4,183
Deferred income Tax		
Foreign	(915)	4,513
Total Provision for Income Tax	$ 8,538	$ 8,696

A reconciliation of the statutory tax rate in Colombia to the Company s effective tax rate is as follows:

	December 31, 2014	December 31, 2013
Income tax expense at statutory rates	34.0 %	34.0 %
Non-deductible expenses	1.6 %	6.5 %
Non-taxable income	-6.0 %	-12.2 %
Effective tax rate	29.6 %	28.3 %

The Company s effective tax rate of 29.6% for the year ended December 31, 2014 reflects non-deductible income (losses) of $3,744 mostly due to the change in fair value of the Company s warrant liability and other non-deductible expenses such as amortization of intangible assets.

The Company has the following net deferred tax assets and liabilities:

December 31,

	2014	2013
Deferred tax assets:		
Accounts Receivable Clients not delivered FOB	$ 1,260	$ 518
Accounts Receivable Clients POC	2,452	849
Depreciation	1,542	465
Financials Liabilities	5	
Provision Inventory obsolescence	114	489
Total deferred tax assets	$ 5,373	$ 2,321
Deferred tax liabilities:		
Inventory not delivered FOB	$ 984	$ 405
Accounts Receivable Clients POC	6,325	4,706
Depreciation	485	565
Financials Liabilities		78
Provision Accounts Receivable	622	944
Total deferred tax liabilities	$ 8,416	$ 6,698
Net deferred tax liability	$ 3,043	$ 4,377

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Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 13. Income Taxes (continued)

The Company does not have any uncertain tax positions for which it is reasonably possible that the total amount of gross unrecognized tax benefits will increase or decrease within twelve months of December 31, 2014. The unrecognized tax benefits may increase or change during the next year for items that arise in the ordinary course of business.

Note 14. Fair Value Measurements

The Company accounts for financial assets and liabilities in accordance with accounting standards that define fair value and establish a framework for measuring fair value. The hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company s assumptions used to measure assets and liabilities at fair value. A financial asset s or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis:

At December 31, 2014	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant Liability			19,991
Interest Rate Swap Derivative Liability		134	
Long Term Receivables from Related Parties		4,220	

At December 31, 2013	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant Liability			18,280

Interest Rate Swap Derivative Liability	178
Foreign Currency Forward Liability	53

Note 15. Related Parties

The Company s major related party entities disclosed in this footnote are: (i) ES Windows LLC (ESW LLC), a Florida LLC partially owned by the Company s Chief Executive Officer and Chief Operating Officer, (ii) Ventanas Solar S.A. (VS), an importer and installer based in Panama owned by related party family members, (iii) Union Temporal ESW (UT ESW), a temporary contractual joint venture with Ventanar S. A. under Colombian law that is managed by related parties and that expires at the end of its applicable contract, (iv) UT Semáforos Barranquilla (UT SB), a temporary contractual joint venture with related party Construseñales S.A. under Colombian law that expires at the end of its applicable contract, (v) A Construir S.A., a heavy construction company in which the Company s CEO, COO and other related parties are equity investors, (vi) Construseñales S.A., a traffic signal construction company in which the Company s CEO, COO and other related parties are equity investors.

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 15. Related Parties (continued)

The following is a summary of assets, liabilities, and income and expense transactions with all related parties, shareholders, directors and managers:

	At December 31, 2014	At December 31, 2013
Current Assets		
Due from ESW LLC	$ 13,814	$ 11,823
Due from VS	7,979	5,050
Due from UT ESW	2,001	3,199
Due from other related parties	4,534	1,346
	$ 28,327	$ 21,418
Trade receivable from VS	$ 4,220	$ 5,722
Liabilities		
Due to A Construir S.A.	$ (995)	$ (2,314)
Due to UT SB		(1,287)
Due to Construseñales S.A.		(3,633)
Due to other related parties	(461)	(1,163)
	$ (1,456)	$ (8,397)

Sales to other related parties was less than $0.1 million in the year ended December 31, 2014 and 2013.

	Year Ended 2014	2013
Revenues		
Sales to ESW LLC and VS	$ 47,630	$ 28,788
Expenses		
Fees paid to Directors and Officers	1,327	408
Paid to other related parties	3,549	512

In 2014, the Company and VS executed a three year payment agreement for recovery of trade receivables outstanding for $6.6 million with an interest rate of Libor + 4.7% paid semiannually. As of December 31, 2014, the payment plan was accounted for at fair value.

In 2013, the Company guaranteed a loan for $163 used to develop a lot adjacent to the Alutions plant into a related party fuel service station, Santa Maria del Mar S.A. At December 31, 2014, the guarantee was in good standing and no liabilities have been recorded, and the Company was in the process of restructuring the guarantee to exclude the involvement of Tecnoglass, S.A., as required by the merger agreement.

In April 2014, the Company guaranteed approximately $300 of bank loans for the Company s Foundation. As of December 31, 2014, the loan balance was $60, and the guarantee is in good standing. No liabilities have been recorded.

In December 2014, ESW LLC, a related party, guaranteed a mortgage loan for $3,920 for the acquisition of real properties in Miami-Dade County, Florida by Tecnoglass RE LLC, a wholly owned subsidiary of the Company.

Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 16. Derivative Financial Instruments

In 2012, the Company entered into two interest rate swap (IRS) contracts as economic hedges against interest rate risk through 2017, and two currency forward contracts as economic hedges against foreign currency rate risk on U.S. dollar loans. The currency forwards expired in January 2014. Hedge accounting treatment per guidance in ASC 815-10 and related Subsections was not pursued at inception of the contracts. Changes in the fair value of the derivatives will be recorded in current earnings. The derivative contracts were initially recorded on the balance sheet as liabilities as December 31, 2013, at an aggregate fair value of $230.

The Company entered into three interest rate swap (IRS) contracts as economic hedges against interest rate risk on its peso loans through 2017. Hedge accounting treatment per guidance in ASC 815-10 and related Subsections was not pursued at inception of the contracts. Changes in the fair value of the derivatives are recorded in current earnings. The derivative contracts were initially recorded on the balance sheet as liabilities as of December 31, 2014 at an aggregate fair value of $134.

Note 17. Warrant Liability

The fair value of the warrant liability was determined by the Company using the Binomial Lattice pricing model. This model is dependent upon several variables such as the instrument s expected term, expected strike price, expected risk-free interest rate over the expected instrument term, the expected dividend yield rate over the expected instrument term and the expected volatility of the Company s stock price over the expected term. The expected term represents the period of time that the instruments granted are expected to be outstanding. The expected strike price is based upon a weighted average probability analysis of the strike price changes expected during the term as a result of the down round protection. The risk-free rates are based on U.S. Treasury securities with similar maturities as the expected terms of the options at the date of valuation. Expected dividend yield is based on historical trends. The Company measures volatility using a blended weighted average of the volatility rates for a number of similar publicly-traded companies. The inputs to the model were as follows:

	December 31, 2014	December 31, 2013
Stock Price	$ 10.15	$ 8.55
Dividend Yield	N/A	N/A
Risk-free rate	0.67 %	0.78 %
Expected Term	1.97	2.97
Expected Volatility	33.62 %	44.69 %

The table below provides a reconciliation of the beginning and ending balances for the warrant liability measured using significant unobservable inputs (Level 3):

Balance December 31, 2013	$ 18,280
Fair value adjustment for year ended December 31, 2014	1,711
Balance at December 31, 2014	$ 19,991

Note 18. Commitments and Contingencies

Guarantees

Guarantees on behalf of or from related parties are disclosed in Note 15 Related Parties.

Legal Matters

Tecnoglass S.A. and Tecnoglass USA, Inc., a related party, were named in a civil action for wrongful death, negligence and negligent infliction of emotional distress arising out of a workplace accident where a crate of glass fell and fatally crushed a worker during the unloading process. TG denied liability and

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 18. Commitments and Contingencies (continued)

rigorously defended the claim in court. TG s insurance carrier provided coverage to TG under a $3.0 million wasting policy, which meant that the attorneys fees and expenses incurred during the defense of the claim reduced the amount of coverage available. On October 1, 2014 the case was settled. The plaintiffs accepted $1,075, with a payment time of 60 days. The Company s insurance policy covered 90% of the loss.

Tecnoglass S.A. is also a named defendant in in the matter of Diplomat Properties, Limited Partnership as assignee of Shower Concepts, Inc. v. Tecnoglass Colombia, S.A. in the 17th Judicial Circuit in and for Broward County, Florida. Plaintiff Diplomat Properties, Limited (Diplomat) has asserted a claim for indemnification against TG and Tecnoglass USA, Inc. The claim arises from the supplying of glass shower doors to a hotel/spa in Broward County, Florida. Specifically, in 2006, Diplomat commenced arbitration against Shower Concepts, Inc. seeking damages for breach of contract due to fractures in the installed glass shower doors. Diplomat initiated a complaint asserting various claims which were dismissed with prejudice. The only remaining claim against the Tecnoglass entities is common law indemnification. TG denies liability and asserts that Shower Concepts was at fault and that as a joint tort feasor, it cannot sue for indemnity. A trial date has not yet been set for this case. Management and TG s counsel believes that a liability in this claim is remote and immaterial and there are no significant reasonably estimated amounts for a possible loss.

General Legal Matters

From time to time, the Company is involved in legal matters arising in the ordinary course of business. While management believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is, or could be, involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations.

Note 19. Shareholder s Equity

Preferred Shares

TGI is authorized to issue 1,000,000 preferred shares with a par value of $0.0001 per share with such designation, rights and preferences as may be determined from time to time by the Company s board of directors.

As of December 31, 2014, there are no preferred shares issued or outstanding.

Ordinary Shares

The Company is authorized to issue 100,000,000 ordinary shares with a par value of $0.0001 per share. As of December 31, 2014, a total of 27,801,132 Ordinary shares were issued and outstanding which includes 3,000,000 Earnout shares which have been issued and placed in escrow but have no voting rights. The Earnout shares are not considered issued and outstanding as a matter of Cayman Islands law.

Legal Reserve

Colombian regulation requires that companies retain 10% of net income until it accumulates to least 50% of subscribed and paid in capital.

Restricted Securities

Energy Holding Corporation, the sole shareholder of Tecnoglass Holding whose shareholders are all of the former shareholders of Tecnoglass and ES, received 20,567,141 ordinary shares in consideration of all of the outstanding and issued ordinary shares of Tecnoglass Holding. Under the terms of the merger agreement, the shareholders of Energy Holding Corporation entered into lock-up agreements precluding the sale or transfer of their shares until December 20, 2014. Certain other holders of ordinary shares and warrants had been restricted from selling any of their securities until December 20, 2014. This restriction expired on that date.

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 19. Shareholder s Equity (continued)

Energy Holding Corp. also has the contractual right to receive an additional 2,500,000 ordinary shares, to be released upon the attainment of specified share price targets or targets based on our EBITDA in the fiscal years ending December 31, 2015 or 2016. The following table sets forth the targets and the number of earnout shares issuable to Tecnoglass Holding shareholders upon the achievement of such targets:

	Ordinary Share Price Target	EBITDA Target		Number of Earnout Shares	
		Minimum	Maximum	Minimum	Maximum
Fiscal year ending 12/31/15	$ 13.00 per share	$35,000,000	$40,000,000	875,000	1,000,000
Fiscal year ending 12/31/16	$ 15.00 per share	$40,000,000	$45,000,000	1,333,333	1,500,000

If either the ordinary share target or the maximum EBITDA target is met in any fiscal year, Energy Holding Corp. receives the maximum number of earnout shares indicated for the year. In the event the ordinary share target is not met but the combined company s EBITDA falls within the minimum and maximum EBITDA target for a specified year, the number of earnout shares to be issued will be interpolated between such targets. In the event neither the ordinary share target nor the minimum EBITDA target is met in a particular year, but a subsequent year s share price or EBITDA target is met, Energy Holding Corp. will earn the earnout shares for the previous year as if the prior year s target had been met.

Long Term Incentive Compensation Plan

On December 20, 2013, our shareholders approved our 2013 Long-Term Equity Incentive Plan (2013 Plan). Under the 2013 Plan, 1,593,917 ordinary shares are reserved for issuance in accordance with the plan s terms to eligible employees, officers, directors and consultants. As of December 31, 2014, no awards had been made under the 2013 Plan.

Registration Statement and Company Securities

The Company filed a securities registration statement on Form S-1 on April 28, 2014, related to 31,362,216 ordinary shares and 5,500,000 warrants. This represents (i) 649,382 ordinary shares issued pursuant to two subscription agreements in connection with our initial business combination, (ii) 23,567,141 ordinary shares issued or to be issued as consideration in connection with our initial business combination, (iii) 1,050,000 ordinary shares issued in connection with our formation, (iv) 500,000 ordinary shares and 500,000 warrants underlying unit purchase options (and 500,000 ordinary shares underlying the warrants included in the unit purchase options) originally issued in connection with our initial public offering, (v) 4,800,000 warrants, or insider warrants, (and 4,800,000 ordinary shares underlying the insider warrants) purchased simultaneously with our initial public offering, (vi) 200,000 working capital warrants, (and 200,000 ordinary shares underlying the working capital warrants) upon conversion of a promissory note issued by us in consideration of a working capital loans and (vii) 95,693 ordinary shares sold pursuant to a subscription agreement in March 2014.

The Company did not receive any proceeds from the sale of the securities in the registration statement, although the Company could receive up to $40.0 million upon the exercise of all of the insider warrants and working capital warrants, up to $9.4 million upon the exercise of the unit purchase options, up to $7.2 million upon the exercise of the warrants underlying such unit purchase options and up to $33.6 million upon the exercise of the warrants issued in the Public Offering. Any amounts received from such exercises will be used for working capital and other general corporate purposes.

Following the SEC s Notice of Effectiveness dated June 16, 2014 of the Company s registration statement on S-1, an aggregate of 102,570 warrants have been exercised for proceeds of $821 as of December 31, 2014. As of the latest practicable date before these consolidated financial statements were available for publication, a total of 102,570 warrants had been exercised for the Company s ordinary shares through March 20th, 2015.

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 19. Shareholder s Equity (continued)

Issuance of Common Stock

In March 2014, the Company entered into an agreement with an affiliate of A Lorne Weil, the Company s Non-Executive Chairman of the board, for the sale of 95,693 ordinary shares at a price of approximately $10.45 per share in a private placement transaction, for proceeds to the company of $1.0 million.

In December 2014, the Company entered into two asset purchase agreements with Glasswall LLC, a South Florida based manufacturer of impact-resistant windows and door systems. Total consideration paid by the Company was $9,000, of which $4,000 were paid with the issuance of 388,199 ordinary shares issued to Glasswall at $10.30 per share.

In the year ended December 31, 2014, following the Notice of Effectiveness on June 16, 2014 of the Company s Registration Statement on Form S-1, the Company has issued 102,570 ordinary shares to former warrant holders who exercised their warrants. Total proceeds from the warrant exercises have been $821 at $8.00 per share.

Note 20. Acquisitions

In June 2014, we acquired selected assets of RC Aluminum Industries, Inc. (RC Aluminum) for $1.9 million. RC Aluminum designs, manufactures and installs glass products for architects, designers, developers and general contractors. The primary assets acquired include Miami-Dade County Notices of Acceptance (NOA) for more than 50 products manufactured and sold by RC Aluminum and the right to complete two RC Aluminum s contracted projects with an estimated value of approximately $12 million. At December 31, 2014, the assets acquired from RC Aluminum were recorded as intangible assets at fair values of $1,094 for the NOA permitted designs and $850 for the customer list of projects.

In December 2014, we acquired assets of Glasswall, LLC, a Miami, South Florida based manufacturer of impact-resistant windows and door systems used in high-rise commercial and residential buildings. As part of the transaction, we acquired a 160,000 square foot warehouse/manufacturing/office facility in Miami for $5,167, and manufacturing and assembly equipment, and Miami-Dade NOAs for products manufactured and sold by Glasswall and other tangible and intangible assets for $4,134 accounted under other assets as of December 31, 2014, pending further assessment of the purchase price allocation. The Company did not acquire any equity interest or control of Glasswall and there was no goodwill related to this transaction. Total consideration consisted 388,199 ordinary shares for $4,000 in our stock and $5,301 in cash financed in part by a 15-year, $3,920 term loan that we secured to acquire the facilities.

Fair value considerations	
Assets Acquired	
Land	$ 1,952
Buildings	3,215
Other Assets	4,134
Total	9,301
Payment method	
Financial Obligations	3,920
Common Stock	4,000
Cash	1,381
Total	$ 9,301

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Tecnoglass Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Amounts in thousands, except share and per share data)

Note 21. Segment and Geographic Information

The Company has one operating segment, Architectural Glass and Windows, which is also its reporting segment, comprising the design, manufacturing, distribution, marketing and installation of high-specification architectural glass and window products sold to the construction industry.

The following tables present revenues from external customers, long-lived assets and deferred taxes by geographical region, and revenues from external customers by product groups. Geographical information is based on the location where the sale originated or the assets are held.

	December 31, 2014		2013	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
Colombia	$ 80,062	$ 26,830	$ 101,754	$ 20,701
United States	101,612	10,775	66,723	
Panama	11,351		10,210	
Other	4,427		4,607	
Total	$ 197,452	$ 37,605	$ 183,294	$ 20,701

	December 31, 2014	2013
Deferred Tax Assets		
Colombia	$ 3,253	$ 1,429

Revenue by Product Groups

	December 31, 2014	2013
Glass and framing components	$ 69,122	$ 65,616
Windows and architectural systems	128,330	117,678
Total Revenues	$ 197,452	$ 183,294

Note 22. Subsequent Events

Pursuant to the merger agreement and plan of reorganization and on filing of financial statements for the fiscal year ended December 31, 2014, Energy Holding Corporation will receive an aggregate of 500,000 ordinary shares based on its achievement of specified EBITDA targets set forth in such agreement.

On April 14, 2015, the Company s Board of Directors authorized the payment of regular quarterly dividends to holders of its ordinary shares at a quarterly rate of $0.125 per share (or $0.50 per share on an annual basis). The Board of Directors also approved an Exchange Offer to acquire all of the Company s outstanding warrants in exchange for ordinary shares of the Company at conversion ratio of three warrants in exchange for one ordinary share. The Exchange Offer will remain open for a period of 30 days once exchange documentation is sent to warrant holders and the first quarterly dividend payment will be made to shareholders of record 15 days after the end of the Exchange Offer.

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TECNOGLASS INC.
Interim Financial Statements

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Tecnoglass Inc. and Subsidiaries

Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)
(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$16,018	$15,930
Trade accounts receivable, net	54,306	44,955
Due from related parties	31,266	28,327
Inventories, net	40,097	28,965
Other current assets	26,869	23,319
Total current assets	**168,556**	**141,496**
Long term assets:		
Property, plant and equipment, net	126,340	103,980
Long term receivables from related parties	3,392	4,220
Other long term assets	5,946	6,195
Total long term assets	**135,678**	**114,395**
Total assets	**$304,234**	**$255,891**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$43,469	$33,493
Due to related parties	3,836	1,456
Current portion of customer advances on uncompleted contracts	10,356	5,782
Short-term debt and current portion of long term debt	58,217	54,925
Note payable to shareholder	79	80
Other current liabilities	21,459	17,300
Total current liabilities	**137,416**	**113,036**
Long term liabilities:		
Warrant liability	31,304	19,991
Customer advances on uncompleted contracts	10,645	8,333
Long term debt	56,654	39,273
Total liabilities	**$236,019**	**$180,633**
COMMITMENTS AND CONTINGENCIES		
Shareholders equity		
Preferred shares, $0.0001 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2015		
Ordinary shares, $0.0001 par value, 100,000,000 shares authorized, 25,301,132 and 24,801,132 shares issued and outstanding at June 30, 2015 and December	3	2

31, 2014, respectively		
Legal Reserves	1,367	1,367
Additional paid-in capital	46,514	46,514
Retained earnings	37,340	38,806
Accumulated other comprehensive loss	(17,009)	(11,431)
Total shareholders equity	**$68,215**	**$75,258**
Total liabilities and shareholders equity	**$304,234**	**$255,891**

The accompanying notes are an integral part of these condensed consolidated financial statements.

Tecnoglass Inc. and Subsidiaries Condensed Consolidated Balance Sheets (In thousands, except share and per s 180

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Tecnoglass Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income (Amounts in thousands, except share and per share amounts) (Unaudited)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Operating Revenues:				
Customers	$44,813	$42,192	$83,937	$81,415
Related Party	13,240	9,744	26,159	18,362
Total operating revenues	58,053	51,936	110,096	99,777
Cost of sales	39,055	35,287	73,916	68,532
Gross Profit	**18,998**	**16,649**	**36,180**	**31,245**
Operating expenses	9,690	8,230	18,870	14,969
Operating income	**9,308**	**8,419**	**17,310**	**16,276**
Loss on change in fair value of warrant liability	(16,391)	(4,645)	(11,313)	(13,525)
Non-operating revenues, net	1,417	1,191	5,142	2,477
Interest expense	2,050	2,294	4,202	4,267
(Loss) Income before taxes	(7,716)	2,671	6,937	961
Income tax provision	3,631	2,263	8,403	5,234
Net (loss) income	**$(11,347)**	**$408**	**$(1,466)**	**$(4,273)**
Comprehensive (loss) income:				
Net (loss) income	$(11,347)	$408	$(1,466)	$(4,273)
Foreign currency translation adjustments	(410)	2,885	(5,577)	2,709
Total comprehensive (loss) income	**$(11,757)**	**$3,293**	**$(7,043)**	**$(1,564)**
Basic (loss) income per share	$(0.45)	$0.02	$(0.06)	$(0.18)
Diluted (loss) income per share	$(0.45)	$0.01	$(0.06)	$(0.18)
Basic weighted average common shares outstanding	25,147,286	24,311,199	24,975,165	24,276,947
Diluted weighted average common shares outstanding	25,147,286	27,986,839	24,975,165	24,276,947

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tecnoglass Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,466)	$(4,273)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for bad debts	428	
Provision for obsolete inventory	(281)	20
Depreciation and amortization	5,246	4,972
Equity method income		51
Change in value of derivative liability	(42)	(24)
Change in fair value of warrant liability	11,313	13,525
Deferred income taxes	(854)	818
Changes in operating assets and liabilities:		
Trade accounts receivables	(13,623)	(21,027)
Inventories	(13,721)	(432)
Prepaid expenses	198	(391)
Other assets	(4,297)	(6,470)
Trade accounts payable	12,974	(4,173)
Advances from customers	8,254	634
Related parties, net	(2,300)	(3,517)
Other current liabilities	5,418	(2,700)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**7,247**	**(22,887)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	266	337
Proceeds from sale of property and equipment	34	
Purchase of investments	(979)	(869)
Acquisition of property and equipment	(15,188)	(7,282)
Restricted cash		3,572
CASH USED IN INVESTING ACTIVITIES	**(15,867)**	**(4,242)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt	57,462	55,080
Proceeds from the sale of common stock		1,000
Proceeds from the exercise of warrants		160
Repayments of debt	(49,093)	(37,568)
Merger proceeds held in trust		22,519

CASH PROVIDED BY FINANCING ACTIVITIES	**8,369**	**41,191**
Effect of exchange rate changes on cash and cash equivalents	339	516
NET INCREASE IN CASH	88	14,578
CASH Beginning of period	15,930	2,866
CASH End of period	**$16,018**	**$17,444**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$3,239	$3,493
Income Tax	$7,188	$5,638
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Assets acquired under capital lease	$20,180	$2,462

The accompanying notes are an integral part of these condensed consolidated financial statements.

Tecnoglass Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows (Amounts in thousands) (Ur

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Tecnoglass Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Amounts in thousands, except share and per share data) (Unaudited)

Note 1. Organization, Plan of Business Operation

Tecnoglass Inc. (TGI, the Company, we, us or our) was incorporated in the Cayman Islands on September 21, under the name Andina Acquisition Corporation (Andina) as a blank check company. Andina s objective was to acquire, through a merger, share exchange, asset acquisition, share purchase recapitalization, reorganization or other similar business combination, one or more operating businesses. On December 20, 2013, Andina consummated a merger transaction (the Merger) with Tecno Corporation (Tecnoglass Holding) as ultimate parent of Tecnoglass S.A. (TG) and C.I. Energía Solar S.A. ES. Windows (ES). The surviving entity was renamed Tecnoglass Inc. The Merger transaction was accounted for as a reverse merger and recapitalization where Tecnoglass Holding was the acquirer and TGI was the acquired company. Accordingly, the business of Tecnoglass Holding and its subsidiaries became our business. We are now a holding company operating through our direct and indirect subsidiaries.

The Company manufactures hi-specification, architectural glass and windows for the global residential and commercial construction industries. Currently the Company offers design, production, marketing, and installation of architectural systems for buildings of high, medium and low elevation size. Products include windows and doors in glass and aluminum, office partitions and interior divisions, floating façades and commercial window showcases. The Company sells to customers in North, Central and South America, and exports about half of its production to foreign countries.

TG manufactures both glass and aluminum products. Its glass products include tempered glass, laminated glass, thermo-acoustic glass, curved glass, silk-screened glass, acoustic glass and digital print glass. Its Alutions plant produces mill finished, anodized, painted aluminum profiles and rods, tubes, bars and plates. Alutions operations include extrusion, smelting, painting and anodizing processes, and exporting, importing and marketing aluminum products.

ES designs, manufactures, markets and installs architectural systems for high, medium and low rise construction, glass and aluminum windows and doors, office dividers and interiors, floating facades and commercial display windows.

In 2014, the Company established two Florida limited liability companies, Tecnoglass LLC (Tecno LLC) and Tecnoglass RE LLC (Tecno RE) to acquire manufacturing facilities, manufacturing machinery and equipment, customer lists and exclusive design permits.

Note 2. Summary of significant accounting policies

Basis of Presentation and Use of Estimates

The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission (SEC). The results reported in these unaudited condensed consolidated financial statements are not necessarily indicative of results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the information contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 (2014 Annual Report on Form 10-K). The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP.

These unaudited condensed consolidated financial statements include the consolidated results of TGI, its indirect wholly-owned subsidiaries TG and ES, and its direct subsidiaries Tecno LLC and Tecno RE. Material intercompany accounts, transactions and profits are eliminated in consolidation. The unaudited condensed consolidated financial statements are prepared in accordance with the rules of the SEC for interim reporting purposes.

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Tecnoglass Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements
(Amounts in thousands, except share and per share data)
(Unaudited)

Note 2. Summary of significant accounting policies (continued)

The preparation of these unaudited, condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company s financial statements. Actual results may differ from these estimates under different assumptions or conditions. Estimates inherent in the preparation of these, condensed consolidated financial statements relate to the collectability of account receivables, the valuation of inventories, estimated earnings on uncompleted contracts, useful lives and potential impairment of long-lived assets, and valuation of warrants and other derivative financial instruments. Based on information known before these unaudited, condensed consolidated financial statements were available to be issued, there are no estimates included in these statements for which it is reasonably possible that the estimate will change in the near term up to one year from the date of these financial statements and the effect of the change will be material, except for warrant liability further discussed below in this note and Note 10.

Foreign Currency Translation

The condensed consolidated financial statements are presented in United States Dollars, the reporting currency. The functional currency of the Company s operations in Colombia is the Colombian Peso. The condensed consolidated financial statements of the Company s foreign operations are prepared in the functional currency. The Statements of Operations and Comprehensive (Loss) Income prepared in the functional currency are translated into the reporting currency using average exchange rates for the respective periods. Assets and liabilities on the condensed consolidated Balance Sheets are translated into the reporting currency using rates of exchange at the end of the period and the related translation adjustments are recorded as accumulated other comprehensive (loss) income, a component of equity in the condensed consolidated balance sheet.

Revenue Recognition

Our principal sources of revenue are derived from product sales of manufactured glass and aluminum products. Revenue is recognized when (i) persuasive evidence of an arrangement exists in the form of a signed purchase order or contract, (ii) delivery has occurred per contracted terms, (iii) fees and prices are fixed and determinable, and (iv) collectability of the sale is reasonably assured. All revenue is recognized net of discounts, returns and allowances. The Company recognizes revenue when goods are shipped, which is FOB shipping point . Delivery to the customer is deemed to have occurred when the customer takes title to the product. Generally, title passes to the customer upon shipment, but title transfer may occur when the customer receives the product based on the terms of the agreement with the customer.

Revenues from fixed price contracts are recognized using the percentage-of-completion method, measured by the percentage of costs incurred to date to total estimated costs for each contract. Revenues recognized in advance of amounts billable pursuant to contracts terms are recorded as unbilled receivables on uncompleted contracts based on work performed and costs to date. Unbilled receivables on uncompleted contracts are billable upon various events, including the attainment of performance milestones, delivery of product and/or services, or completion of the contract. Revisions to cost estimates as contracts progress have the effect of increasing or decreasing expected profits each period. Changes in contract estimates occur for a variety of reasons, including changes in contract scope, estimated revenue and estimated costs to complete.

Trade Accounts Receivable

Trade accounts receivable are recorded net of allowances for cash discounts for prompt payment, doubtful accounts and sales returns. Estimates for cash discounts and sales returns are based on contractual terms, historical trends and expectations regarding the utilization rates for these clients. The Company s policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its

Tecnoglass Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Amounts in thousands, except share and per share data) (Unaudited)

Note 2. Summary of significant accounting policies (continued)

existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the collectability of an account may be in doubt. Account balances deemed uncollectible are charged to the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories, which consist primarily of purchased and processed glass, aluminum, parts and supplies held for use in the ordinary course of business, are valued at the lower of cost or market. Cost is determined using a weighted-average method. Inventory consisting of certain job specific materials not yet installed are valued using the specific identification method. Reserves for excess or slow-moving inventories are updated based on historical experience of a variety of factors including sales volume and levels of inventories at the end of the period. The Company does not maintain allowances for the lower of cost or market for inventories of finished products as its products are manufactured based on firm orders rather than built-to-stock.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Significant improvements and renewals that extend the useful life of the asset are capitalized. Repairs and maintenance are charged to expense as incurred. When property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any related gains or losses are included in income as a reduction to, or increase in selling, general and administrative expenses. Depreciation is computed on a straight-line basis, based on the following estimated useful lives:

Buildings	20 years
Machinery and equipment	10 years
Furniture and fixtures	10 years
Office equipment and software	5 years
Vehicles	5 years

Warrant liability

The Company accounts for the warrants against its ordinary shares as a derivative liability. The Company classifies the warrant instrument as a liability at its fair value because the warrants do not meet the criteria for equity treatment under guidance contained in ASC 815-40-15-7D. This liability is subject to re-measurement at each balance sheet date and adjusted at each reporting period until exercised or expired, and any change in fair value is recognized in the Company s condensed consolidated statement of operations.

The Company determines the fair value of warrant liability using the Binomial Lattice options pricing model. In general, the inputs used are unobservable and the fair value measurement of the warrant liability is classified as a Level 3 measurement under guidance for fair value measurements hierarchy of categorization to reflect the level of judgment and observability of the inputs involved in estimating fair values. Refer to Note 10 for additional details about the Company s warrants.

Income Taxes

The Company s operations in Colombia are subject to the taxing jurisdiction of the Republic of Colombia. Tecno LLC and Tecno RE are subject to the taxing jurisdiction of the United States. TGI and Tecnoglass Holding are subject to the taxing jurisdiction of the Cayman Islands.

The Company recognizes deferred tax assets and liabilities for the expected impact of differences between the financial statements and tax bases of assets and liabilities and for the expected future tax benefit to be derived from tax losses and tax credit carry forwards if any.

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Tecnoglass Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Amounts in thousands, except share and per share data) (Unaudited)

Note 2. Summary of significant accounting policies (continued)

The Company believes that its income tax positions and deductions used in its tax filings would be sustained on audit and does not anticipate any adjustments that would result in a material changes to its financial position.

Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of ordinary shares outstanding during the period, excluding the effects of any potentially dilutive securities. Income per share assuming dilution (diluted earnings per share) would give effect to dilutive options, warrants, and other potential ordinary shares outstanding during the period. Basic loss per share is computed by dividing loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The Company considered the dilutive effect of warrants to purchase ordinary shares in the calculation of diluted income per share, which resulted in 3,675,640 shares of dilutive securities for the three month period ended June 30, 2014. The computation of diluted earnings per share excludes the effects of 3,419,463 and 3,299,989 dilutive options for the six months ended June 30, 2015 and 2014, as well as 3,927,132 dilutive options, warrants and other potentially dilutive securities for the three month period ended June 30, 2015, because their inclusion, given a net loss for the period, would be anti-dilutive.

The following table sets forth the computation of the basic and diluted earnings per share for the three and six month periods ended June 30, 2015 and 2014:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Numerator for basic and diluted earnings per shares				
Net (Loss) Income	$(11,347)	$408	$(1,466)	$(4,273)
Denominator				
Denominator for basic earnings per ordinary share weighted average shares outstanding	25,147,286	24,311,199	24,975,165	24,276,947

Effect of dilutive warrants and earnout shares		3,675,640		
Denominator for diluted earnings per ordinary share weighted average shares outstanding	25,147,286	27,986,839	24,975,165	24,276,947
Basic earnings per ordinary share	$(0.45)	$0.02	$(0.06)	$(0.18)
Diluted earnings per ordinary share	$(0.45)	$0.01	$(0.06)	$(0.18)

Product Warranties

The Company offers product warranties in connection with the sale and installation of its products that are competitive in the markets in which the products are sold. Standard warranties depend upon the product and service, and are generally from five to ten years for architectural glass, curtain wall, laminated and tempered glass, window and door products. Warranties are not priced or sold separately and do not provide the customer with services or coverages in addition to the assurance that the product complies with original agreed-upon specifications. Claims are settled by replacement of the warrantied products.

Non-Operating Revenues

The Company recognizes non-operating revenues from foreign currency transaction gains and losses, interest income on receivables, proceeds from sales of scrap materials and other activities not related to the Company s operations. The Company recognizes non-operating revenues from foreign currency transaction

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Note 2. Summary of significant accounting policies (continued)

gains and losses, interest income on receivables, proceeds from sales of scrap materials and other activities not related to the Company s operations. Foreign currency transaction gains and losses occur when monetary assets, liabilities, payments and receipts that are denominated in currencies other than the Company s functional currency are recorded in the Colombian peso accounts of the Company in Colombia. The Company s non-operating revenues for the six months ended June 30, 2015 and 2014 were $5,142 and $2,477, respectively. During the six months ended June 30, 2015 and 2014, the Company recorded net gains from foreign currency transactions of $3,373 and $1,404, respectively.

Reclassifications

Certain accounts in the prior year s condensed consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year condensed consolidated financial statements. These reclassifications have no effect on the previously reported net income.

Note 3. Revision to Previously Reported Financial Statements

The Company revised certain disclosures in the financial statements filed with our quarterly report for the period ended June 30, 2015. We revised financial statements to separately disclose related party revenues on the face of the consolidated statement of income, which were previously on Note 12. We also revised Note 7 to complement disclosures about long-term debt by including a description of assets pledged to secure debt agreements and the maturities of long-term debt and capital lease obligations.

The Company analyzed the errors under SEC staff guidance (Staff Accounting Bulletin 99) and determined the errors are immaterial on a quantitative and qualitative basis and that it is probable that the judgement of a reasonable person relying upon the financial statements would not have been changed or influenced by the inclusions or correction of these items.

Note 4. Variable Interest Entities

The Company conducted an evaluation as a reporting entity of its involvement with certain significant related party business entities as of June 30, 2015 in order to determine whether these entities were variable interest entities requiring consolidation or disclosures in the financial statements of the Company. The Company evaluated two entities with whom it has maintained significant commercial relationships since 2004.

ES Windows LLC (ESW LLC), a Florida LLC, imports and resells the Company s products in the United States and acts as a freight forwarder for certain raw materials inventory purchased in the United States. The Company s CEO and COO, other family members, and other related parties own 100% of the equity in ESW LLC. The Company s sales to ESW LLC for the three month periods ended June 30, 2015 and 2014 were $11.0 million and $9.6 million, respectively, and for the six month periods ended June 30, 2015 and 2014 were $22.9 million and $18.1 million, respectively. Outstanding receivables from ESW LLC at June 30, 2015 and December 31, 2014 were $18.6 million and $13.8 million, respectively.

Ventanas Solar S.A. (VS), a Panama sociedad anonima, is an importer and installer of the Company s products in Panama. Family members of the Company s CEO and CFO and other related parties own 100% of the equity in VS. The Company s sales to VS for the three month ended June 30, 2015 and 2014 were $1.6 million and $3.6 million, respectively. Sales for the six months ended June 30, 2015 and 2014 were $2.6 million and $7.2 million, respectively. Outstanding receivables from VS at June 30, 2015 and December 31, 2014 were $11.2 million and $12.2 million respectively, including a three-year payment agreement for trade receivables with a long term balance of $3.4 million and $4.2 million as of June 30, 2015 and December 31, 2014, respectively, related to a collection agreement between the Company and VS for trade receivables collection from customers in Panama.

Tecnoglass Inc. and Subsidiaries

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Note 4. Variable Interest Entities (continued)

Management evaluated several factors, including whether (i) these entities required subordinated financial support from the Company in order to operate, (ii) what variable interests existed in the risks and operations of the entities, (iii) what explicit or implicit interests the Company had in these entities as a result of the significant commercial relationships, (iv) whether the Company or its related parties had the controlling financial interests in these entities, and as a result, (v) who were the primary beneficiaries of those controlling variable interests. In order to evaluate these considerations, the Company analyzed the designs and initial purposes of these entities using available quantitative information, qualitative factors and guidance under ASC 810-10-25 Consolidation and related Subsections.

As of the date of the evaluation, the Company concluded that (i) both entities are deemed variable interest entities because of the presence and effect of significant related parties; (ii) neither variable interest entity requires subordinated financial support for its operations as these operations are designed to provide residual returns to their equity investors, (iii) the Company s explicit variable interests are its arms-length commercial relationships which do not absorb the entities risks and variability, (iv) that neither the Company nor its related parties had the controlling financial interests, and finally (v) the CEO, COO, family members and other equity investors are more closely related to the ESW LLC and VS and were therefore the primary beneficiaries of those entities variable interests and residual returns or eventual losses, not the Company. The Company concluded that consolidation of these entities was not indicated.

No subordinated financial support has been provided to these entities as of June 30, 2015 or as of December 31, 2014.

Note 5. Inventories, net

Inventories are comprised of the following:

	June 30, 2015	December 31, 2014
Raw materials	$ 30,986	$ 22,421
Work in process	3,511	2,136
Finished goods	2,879	2,158

Stores and spares	2,562	2,371
Packing material	159	171
	40,097	29,257
Less: inventory allowances		(292)
Total inventories, net	$ 40,097	$ 28,965

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Notes to Condensed Consolidated Financial Statements (Amounts in thousands, except share and per share data) (Unaudited)

Note 6. Property, Plant and Equipment, Net

Property, plant and equipment, net consist of the following:

	June 30, 2015	December 31, 2014
Building	$ 37,871	$ 36,228
Machinery and equipment	94,770	76,497
Office equipment and software	4,347	2,868
Vehicles	1,528	1,412
Furniture and fixtures	1,534	1,651
Total property, plant and equipment	140,050	118,656
Accumulated depreciation and amortization	(33,484)	(31,646)
Net value of property and equipment	106,566	87,010
Land	19,774	16,970
Total property, plant and equipment, net	$ 126,340	$ 103,980

Depreciation and amortization expense, inclusive of capital lease amortization, for the three month periods ended June 30, 2015 and 2014 was $2,745 and $3,020, respectively, and for the six month periods ended June 30, 2015 and 2014 was $5,246 and $4,972 respectively.

Note 7. Long-Term Debt

At June 30, 2015, the Company owed approximately $114 million under its various borrowing arrangements with several banks in Colombia, Panama and the United States and including obligations under various capital leases. The bank obligations have maturities ranging from six months to 15 years that bear interest at rates ranging from 2.9% to 12.03%. These loans are generally secured by substantially all of the Company s accounts receivable and/or inventory.

The mortgage loan from TD Bank N.A. for real property acquired in December 2014 by Tecno RE includes covenant requirements that the Company has to maintain debt service coverage ratio to be evaluated for the first time at December 31, 2015 and annually thereafter; as well a loan to value ratio evaluation from time to time by the bank.

The company had $7,186 and $7,362 of property plant and equipment as well as $402 and $435 of other long term assets pledged to secure $36,575 and $26,856 under various lines of credit as of June 30, 2015 and December 31, 2014, respectively. The terms of the line of credit agreements do not restrict the company s operation and use of the assets.

	June 30, 2015	December 31, 2014
Obligations under borrowing arrangements	$ 114,871	$ 94,198
Less: Current portion of long-term debt and other current borrowings	58,217	54,925
Long-term debt	$ 56,654	$ 39,273

Maturities of long term debt and other current borrowings are as follows as of June 30, 2015:

12 months ending June 30,	
2017	$ 22,706
2018	12,210
2019	7,410
2020	6,785
Thereafter	7,543
Total	$ 56,654

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Tecnoglass Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Amounts in thousands, except share and per share data) (Unaudited)

Note 7. Long-Term Debt (continued)

Revolving Lines of Credit

The Company has approximately $8.5 million available in two lines of credit under a revolving note arrangement as of June 30, 2015. The floating interest rates on the revolving notes are between DTF+6% and DTF+7%. DTF is the primary measure of interest rates in Colombia. At June 30, 2015 and December 31, 2014, $7,823 and $375 was outstanding under these lines, respectively.

Proceeds from debt and repayments of debt for the six months ended June 30, 2015 and 2014 are as follows:

	2015	2014
Proceeds from debt	$ 57,462	$ 55,080
Repayments of debt	$ 49,093	$ 37,568

The Company acquired assets under capital leases for the six months ended June 30, 2015 and 2014 for $20,180 and $2,462, respectively.

Interest expense for the six month periods ended June 30, 2015 and 2014 was $4,202 and $4,267, respectively.

Note 8. Income Taxes

The Company files income tax returns for TG and ES in the Republic of Colombia. Colombia s Tax Statute was reformed on December 23, 2014. A general corporate income Tax Rate applies at 25% and a CREE Tax based on taxable income applies at a rate of 9% to certain taxpayers including the Company. Prior to the reform, the CREE Tax would only apply up to tax years 2015. The reform makes the CREE tax rate of 9% permanent and an additional CREE Surtax will apply for the years 2015 through 2018 at varying rates.

The following table summarizes income tax rates under the tax reform law:

	2015	2016	2017	2018	2019

Income Tax	25 %	25 %	25 %	25 %	25 %
CREE Tax	9 %	9 %	9 %	9 %	9 %
CREE Surtax	5 %	6 %	8 %	9 %	
Total Tax on Income	39 %	40 %	42 %	43 %	34 %

The components of income tax expense (benefit) are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Current income tax				
Foreign	$ 4,328	$ 1,900	$ 9,257	$ 4,416
Deferred income tax				
Foreign	(697)	363	(854)	818
Total Provision for Income tax	$ 3,631	$ 2,263	$ 8,403	$ 5,234

The Company s effective tax rates were (47.1%) and 121% for the three and six month periods ended June 30, 2015. The Company s effective tax rates were 84.7% and 545% for the three and six month periods ended June 30, 2014. The Company's effective tax rate for the three and six-month periods ended June 30, 2015 reflect non-deductible losses of $16,391 and $11,313 from the change in fair value of warrant liability as of June 30, 2015, compared with a non-deductible loss of $4,645 and $13,525 for the same periods ended June 30, 2014.

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Note 9. Fair Value Measurements

The Company accounts for financial assets and liabilities in accordance with accounting standards that define fair value and establish a framework for measuring fair value. The hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company s assumptions used to measure assets and liabilities at fair value. The classification of a financial asset or liability within the hierarchy is determined by the lowest level inputs that are significant to the fair value measurement.

Assets and Liabilities recognized or disclosed at Fair Value on a Recurring Basis at June 30, 2015:

	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant Liability	$	$	$ 31,304
Interest Rate Swap Derivative Liability	$	$ 84	$
Long term receivable from related parties	$	$ 3,392	$
Long term debt	$	$ 62,803	$

Assets and Liabilities recognized or disclosed at Fair Value on a Recurring Basis at December 31, 2014:

	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant Liability	$	$	$ 19,991
Interest Rate Swap Derivative Liability	$	$ 134	$

Long term receivable from related parties	$	$ 4,220	$
Long term debt	$	$ 43,266	$

Note 10. Segment and Geographic Information

The Company has one operating segment, Architectural Glass and Windows, which is also its reporting segment, comprising the design, manufacturing, distribution, marketing and installation of high-specification architectural glass and window products sold to the construction industry.

The following tables present geographical information about external revenues.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Colombia	$ 21,869	$ 21,797	$ 39,251	$ 42,751
United States	33,344	26,041	65,022	47,397
Panama	1,355	3,418	2,823	8,323
Other	1,485	680	3,000	1,306
Total	$ 58,053	$ 51,936	$ 110,096	$ 99,777

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Notes to Condensed Consolidated Financial Statements (Amounts in thousands, except share and per share data) (Unaudited)

Note 11. Warrant Liability

Prior to the Merger on December 20, 2013 the Company issued an aggregate of 9,200,000 warrants to purchase its ordinary shares as follows: 4,200,000 warrants issued in connection with Andina s Initial Public Offering, 4,800,000 warrants issued in connection with a Private Placement simultaneous with the Initial Public Offering and 200,000 working capital warrants issued upon conversion of a promissory note at the closing of the Merger. Following the Notice of Effectiveness of its Registration Statement on June 16, 2014, an aggregate of 102,570 warrants have been exercised by investors resulting in a net total of 9,097,430 warrants outstanding as of June 30, 2015. The fair value of the warrant liability was determined by the Company using the Binomial Lattice pricing model. This model is dependent upon several variables such as the instrument s expected term, expected strike price, expected risk-free interest rate over the expected instrument term, the expected dividend yield rate over the expected instrument term and the expected volatility of the Company s stock price over the expected term. The expected term represents the period of time that the instruments granted are expected to be outstanding. The expected strike price is based upon a weighted average probability analysis of the strike price changes expected during the term as a result of the down round protection. The risk-free rates are based on U.S. Treasury securities with similar maturities as the expected terms of the options at the date of valuation. Expected dividend yield is based on historical trends. The Company measures volatility using a blended weighted average of the volatility rates for a number of similar publicly traded companies.

The inputs to the model were as follows:

	June 30, 2015	December 31, 2014
Stock Price	$ 12.63	$ 10.15
Dividend Yield	$ 0.125	N/A
Risk-free rate	0.46 %	0.67 %
Expected Term	1.72	1.97
Expected Volatility	32.69 %	33.62 %

The table below provides a reconciliation of the beginning and ending balances for the warrant liability measured using significant unobservable inputs (Level 3):

Balance December 31, 2014	$ 19,991
Fair value adjustment three months ended March 31, 2015	(5,078)
Balance March 31, 2015	14,913
Fair value adjustment three months ended June 30, 2015	16,391
Balance June 30, 2015	$ 31,304

Note 12. Related Parties

The Company s major related party entities are: ESW LLC, a Florida limited liability company partially owned by the Company s Chief Executive Officer and Chief Operating Officer, VS, an importer and installer based in Panama owned by related party family members, and Union Temporal ESW (UT ESW), a temporary contractual joint venture under Colombian law with Ventanar S. A. managed by related parties that expires at the end of its applicable contracts.

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Note 12. Related Parties (continued)

The following is a summary of assets, liabilities, and income and expense transactions with all related parties, shareholders, directors and managers:

	June 30, 2015	December 31, 2014
Assets		
Due from ESW LLC	$ 18,629	$ 13,814
Due from VS	7,849	7,979
Due from UT ESW	1,420	2,000
Due from other related parties	3,368	4,534
	$ 31,266	$ 28,327
Long term payment agreement from VS	$ 3,392	$ 4,220
Liabilities		
Due to A Construir S.A.	$ 3,219	$ 995
Due to other related parties	617	461
	$ 3,836	$ 1,456

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenues				
Sales to ESW LLC	$ 11,027	$ 9,638	$ 22,898	$ 18,151
Sales to VS	1,553	3,571	2,599	7,236
Sales to UT ESW	660	49	662	115
	13,240	9,744	26,159	18,362
Expenses				
Fees paid to directors and officers	$ 388	$ 621	$ 777	$ 621
Payments to other related parties*	395	1,162	838	1,162

Sales to other related parties were less than 0.1 million in the three months ended and six months ended June 30, 2015 and 2014.

* Payments to other related parties in 2015 and 2014 consists of donations to Fundación Tecnoglass.

In December 2014, the Company and VS executed a three-year payment agreement for recovery of trade receivables outstanding for $6.6 million with an interest rate of Libor + 4.7% paid semiannually. The payment agreement was accounted for at fair value.

In 2013, the Company guaranteed a loan for $163 used to develop a lot adjacent to the Alutions plant into a related party fuel service station Santa Maria del Mar S.A. At June 30, 2015, the guarantee was in good standing and no liabilities have been recorded, and the Company was in the process of restructuring the guarantee to exclude the involvement of Tecnoglass, S.A., as required by the merger agreement.

In December 2014, ESW LLC, a related party, guaranteed a mortgage loan for $3,920 for the acquisition of real properties in Miami-Dade County, Florida in favor of Tecnoglass RE, a wholly owned subsidiary of the Company.

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Tecnoglass Inc. and Subsidiaries

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Note 13. Note Payable to Shareholder

From September 5, 2013 to November 7, 2013, A. Lorne Weil loaned the Company $150 of which $70 was paid at closing of the Merger and $80 remained unpaid as of December 31, 2014. During the second quarter of 2015, the Company paid $1, remaining $79 unpaid as of June 30, 2015.

Note 14. Derivative Financial Instruments

In 2012, the Company entered into two interest rate swap (IRS) contracts as economic hedges against interest rate risk through 2017. Hedge accounting treatment per guidance in ASC 815-10 and related Subsections was not pursued at inception of the contracts. The derivative contracts are recorded on the balance sheet as liabilities at an aggregate fair value of $84 and $134 as of June 30, 2015 and December 31, 2014, respectively. Changes in the fair value of the derivatives are recorded in current earnings.

Note 15. Commitments and Contingencies

Guarantees

Guarantees on behalf of or from related parties are disclosed in Note 11 Related Parties

Legal Matters

Tecnoglass S.A. is also a named defendant in the matter of Diplomat Properties, Limited Partnership as assignee of Shower Concepts, Inc. v. Tecnoglass Colombia, S.A. in the 17th Judicial Circuit in and for Broward County, Florida. Plaintiff Diplomat Properties, Limited (Diplomat) has asserted a claim for indemnification against TG and Tecnoglass USA, Inc. The claim arises from the supplying of glass shower doors to a hotel/spa in Broward County, Florida. Specifically, in 2006, Diplomat commenced arbitration against Shower Concepts, Inc. seeking damages for breach of contract due to fractures in the installed glass shower doors. Diplomat initiated a complaint asserting various claims, which were dismissed with prejudice. The only remaining claim against the Tecnoglass entities is common law indemnification. TG denies liability and asserts that Shower Concepts was at fault and that as a joint tort feasor, it cannot sue for indemnity. A trial date has not yet been set for this case. Management and TG s counsel believes that a liability in this claim is remote and immaterial and there are no significant reasonably estimated amounts for a possible loss.

General Legal Matters

From time to time, the Company is involved in legal matters arising in the ordinary course of business. While management believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is, or could be, involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations.

Note 16. Equity

Pursuant to the merger agreement and plan of reorganization and on filing of financial statements for the fiscal year ended December 31, 2014, Energy Holding Corporation received an aggregate of 500,000 ordinary shares in April 2015 based on the Company s achievement of specified EBITDA targets set forth in such agreement.

On April 14, 2015, the Company s Board of Directors authorized the payment of regular quarterly dividends to holders of its ordinary shares at a quarterly rate of $0.125 per share (or $0.50 per share on annual basis).

Tecnoglass Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Amounts in thousands, except share and per share data) (Unaudited)

Note 17. Subsequent Events

On July 9, 2015, the Company filed a Registration Statement on Form S-4 with the Securities and Exchange Commission (SEC) in connection with a proposed exchange of its warrants for its ordinary shares. Under the terms of the warrant exchange offer, each of Tecnoglass warrant holders will have the opportunity to receive one Tecnoglass ordinary share in exchange for every 2.3 of the Company s outstanding warrants tendered by the holder and exchanged pursuant to the offer. The Exchange Offer will commence as soon as practicable after the registration statement becomes effective and is expected to remain open for not less than 30 days.

Management concluded that no additional subsequent events required disclosure other than those disclosed in these financial statements.

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INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers

Cayman Islands law does not limit the extent to which a company s memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Islands courts to be contrary to public policy, such as to provide indemnification against willful fraud, willful default, civil fraud or the consequences of committing a crime. Our third amended and restated memorandum and articles of association provides for indemnification of our officers and directors to the maximum extent permitted by law, including for any liability incurred in their capacities as such, except through their own actual fraud or willful neglect or willful default.

We also have entered into indemnification agreements with each of our executive officers and members of our board of directors. The indemnification agreements supplement our third amended and restated memorandum and articles of association and Cayman Islands law in providing certain indemnification rights to these individuals. The indemnification agreements provide, among other things, that we will indemnify these individuals to the fullest extent permitted by Cayman Islands law and to any greater extent that Cayman Islands law may in the future permit, including the advancement of attorneys fees and other expenses incurred by such individuals in connection with any threatened, pending or completed action, suit or other proceeding, whether of a civil, criminal, administrative, regulatory, legislative or investigative nature, relating to any occurrence or event before or after the date of the indemnification agreements, by reason of the fact that such individuals is or were our directors or executive officers, subject to certain exclusions and procedures set forth in the indemnification agreements, including the absence of fraud or willful default on the part of the indemnitee and, with respect to any criminal proceeding, that the indemnitee had no reasonable cause to believe his conduct was unlawful.

Item 21. Exhibits and Financial Statement Schedules

Reference is hereby made to the attached Exhibit Index, which is incorporated herein by reference.

Item 22. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(A) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(B) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the *Calculation of Registration Fee* table in the effective registration statement; and

(C) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

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(4) That, for the purpose of determining liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) That, for the purpose of determining liability of the registrant under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(A) any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
(B) any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
(C) the portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
(D) any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Barranquilla, Colombia, on November 10, 2015.

TECNOGLASS INC.

/s/ Joaquin Fernandez

By: Name: Joaquin Fernandez
Title: Chief Financial Officer,
(Principal Financial and Accounting Officer)

POWER OF ATTORNEY

The undersigned directors and officers of Tecnoglass Inc. hereby constitute and appoint Jose Daes and Joaquin Fernandez with full power to act as our true and lawful attorney-in-fact with full power to execute in our name and behalf in the capacities indicated below, this registration statement on Form S-4 and any and all amendments thereto and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby ratify and confirm all that such attorneys-in-fact, or any of them, or their substitutes shall lawfully do or cause to be done by virtue hereof.

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Jose M. Daes Jose M. Daes	Chief Executive Officer (Principal Executive Officer)	November 10, 2015
/s/ Christian T. Daes Christian T. Daes	Chief Operating Officer	November 10, 2015
/s/ Joaquin Fernandez Joaquin Fernandez	Chief Financial Officer (Principal Financial and Accounting Officer)	November 10, 2015
/s/ A. Lorne Weil A. Lorne Weil	Director (Non-Executive Chairman)	November 10, 2015
/s/ Samuel R. Azout Samuel R. Azout	Director	November 10, 2015
/s/ Juan Carlos Vilariño Juan Carlos Vilariño	Director	November 10, 2015
	Director	November 10, 2015

/s/ Martha Byorum Martha Byorum		
/s/ Julio A. Torres Julio A. Torres	Director	November 10, 2015

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EXHIBIT INDEX

Exhibit No.	Description	Included	Form	Filing Date
2.1	Agreement and Plan of Reorganization dated as of August 17, 2013 and as amended November 6, 2013, by and among the Company, Andina Merger Sub, Inc., Tecnoglass S.A., C.I. Energía Solar S.A. E.S. Windows and Tecno Corporation	By Reference	Schedule 14A	December 4, 2013
3.1	Third Amended and Restated Memorandum and Articles of Association.	By Reference	Schedule 14A	December 4, 2013
4.1	Specimen Ordinary Share Certificate.	By Reference	S-1/A	January 23, 2012
4.2	Specimen Warrant Certificate.	By Reference	S-1/A	December 28, 2011
4.3	Warrant Agreement between Continental Stock Transfer & Trust Company and the Company.	By Reference	8-K	March 22, 2012
4.4	Form of First Unit Purchase Option issued to EarlyBirdCapital, Inc.	By Reference	S-1/A	March 12, 2012
4.5	Form of Second Unit Purchase Option issued to EarlyBirdCapital, Inc.	By Reference	S-1/A	March 7, 2012
5.1	Opinion of Maples and Calder.	Herewith*		
8.1	Tax Opinion of Graubard Miller	Herewith		
10.1	Amended and Restated Registration Rights Agreement among the Company, the Initial Shareholders and Energy Holding Corporation.	By Reference	8-K	December 27, 2013
10.2	Indemnity Escrow Agreement dated as of December 20, 2013, by and among the Company, Representative, Committee and Continental Stock Transfer and Trust Company.	By Reference	8-K	December 27, 2013
10.3	Additional Shares Escrow Agreement dated as of December 20, 2013, by and among the Company, Representative, Committee and Continental Stock Transfer and Trust Company.	By Reference	8-K	December 27, 2013
10.4	Form of Lock-Up Agreement between the Company and Energy Holding Corporation	By Reference	8-K	August 22, 2013
10.5	2013 Long-Term Incentive Equity Plan	By Reference	Schedule 14A	December 4, 2013
10.6	Form of Subscription Agreement	By Reference	8-K	December 19, 2013
10.7	Form of Indemnification Agreement	By Reference	8-K	March 6, 2014
21	List of subsidiaries.	By Reference	10-K	April 15, 2015
23.1	Consent of PricewaterhouseCoopers Ltda.	Herewith		

23.2	Consent of Marcum LLP	Herewith
24	Power of Attorney (included on signature page of this Form S-4).	Herewith
99.1	Form of Letter of Transmittal.	Herewith
99.2	Form of Notice of Guaranteed Delivery.	Herewith
99.3	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.	Herewith
99.4	Form of Letter to Clients of Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.	Herewith

Exhibit No.	Description	Included	Form	Filing Date
101.INS	XBRL Instance Document	Herewith		
101.SCH	XBRL Taxonomy Extension Schema	Herewith		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Herewith		
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Herewith		
101.LAB	XBRL Taxonomy Extension Label Linkbase	Herewith		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Herewith		
*	To be filed by Amendment.			