Tecnoglass Inc.
Form 10-Q
October 31, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

[ ] 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: 001-35436

TECNOGLASS INC.

(Exact Name of Registrant as Specified in Its Charter)

Cayman Islands	**98-1271120**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Avenida Circunvalar a 100 mts de la Via 40, Barrio Las Flores Barranquilla, Colombia

(Address of principal executive offices)

(57)(5) 3734000

(Issuer's telephone number)

(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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if smaller reporting company)	Smaller reporting company [X]

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 30,146,390 ordinary shares as of September 30, 2016.

TECNOGLASS INC.

FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Tecnoglass Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,125	$ 18,496
Investments	2,016	1,470
Trade accounts receivable, net	84,629	52,515
Due from related parties	32,350	28,073
Inventories	60,747	46,011
Other current assets	26,324	20,814
Total current assets	$ 224,191	$ 167,379
Long term assets:		
Property, plant and equipment, net	$ 174,818	$ 135,974
Long term receivables from related parties	1,688	2,536
Other long term assets	11,075	10,310
Total long term assets	187,581	148,820
Total assets	$ 411,772	$ 316,199
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Short-term debt and current portion of long term debt	$ 62,401	$ 16,921
Note payable to shareholder	79	79
Trade accounts payable	49,984	39,142
Due to related parties	1,780	1,283
Dividends payable	4,857	-
Current portion of customer advances on uncompleted contracts	10,836	11,841
Earnout Share Liability	18,060	13,740
Warrant liability	4,963	31,213
Other current liabilities	18,059	22,530

Total current liabilities	$ 171,019	$ 136,749
Long term liabilities:		
Earnout Share Liability	$ -	$ 20,414
Customer advances on uncompleted contracts	4,847	4,404
Long term debt	140,189	121,493
Total Long Term Liabilities	145,036	146,311
Total liabilities	$ 316,055	$ 283,060
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred shares, $0.0001 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2016 and December 31, 2015 respectively	$ -	$ -
Ordinary shares, $0.0001 par value, 100,000,000 shares authorized, 30,146,390 and 26,895,636 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	3	3
Legal Reserves	1,367	1,367
Additional paid-in capital	95,403	45,584
Retained earnings	21,423	17,354
Accumulated other comprehensive (loss)	(22,479)	(31,169)
Total shareholders' equity	95,717	33,139
Total liabilities and shareholders' equity	$ 411,772	$ 316,199

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

3

Tecnoglass Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Other Comprehensive Income

(In thousands, except share and per share data)

(Unaudited)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Operating revenues:				
External customers	$65,429	$47,148	$175,100	$131,078
Related parties	14,596	15,744	43,341	41,910
Total operating revenues	80,025	62,892	218,441	172,988
Cost of sales	50,407	39,186	139,149	109,798
Gross Profit	29,618	23,706	79,292	63,190
Operating expenses	(14,284)	(12,890)	(39,997)	(35,064)
Operating income	15,334	10,816	39,295	28,126
Gain (Loss) on change in fair value of earnout shares liabilities	(2,630)	(2,519)	4,404	(10,191)
Gain (Loss) on change in fair value of warrant liability	(12,885)	(10,148)	(287)	(21,461)
Non-operating income (loss), net	630	2,608	2,164	4,377
Foreign currency transactions gains (losses)	2,434	8,136	168	11,509
Interest expense	(4,771)	(2,307)	(12,137)	(6,509)
Income (Loss) before taxes	(1,888)	6,586	33,607	5,851
Income tax provision	6,035	8,524	13,493	16,927
Net income (loss)	$(7,923)	$(1,938)	$20,114	$(11,076)
Comprehensive income (loss):				
Net income (loss)	$(7,923)	$(1,938)	$20,114	$(11,076)
Foreign currency translation adjustments	3,459	(14,111)	8,690	(19,688)
Total comprehensive income (loss)	$(4,464)	$(16,049)	$28,804	$(30,764)
Basic income (loss) per share	$(0.28)	$(0.08)	$0.73	$(0.44)
Diluted income (loss) per share	$(0.28)	$(0.08)	$0.65	$(0.44)

Basic weighted average common shares outstanding	28,312,368	25,426,250	27,489,954	25,127,179
Diluted weighted average common shares outstanding	28,312,368	25,426,250	30,746,922	25,127,179

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

4

Tecnoglass Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$20,114	$(11,076)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for bad debt	-	1,210
Provision for obsolete inventories	-	(265)
Director share-based compensation	229	-
Depreciation and amortization	10,912	8,331
Other income and expenses	(58)	105
Change in fair value of warrant liability	287	21,461
Change in fair value of earnout share liability	(4,404)	10,191
Deferred income taxes	(233)	(1,058)
Changes in operating assets and liabilities:		
Trade accounts receivable	(25,600)	(18,429)
Inventories	(9,699)	(21,129)
Prepaid expenses and other current assets	1,184	360
Other assets	(6,702)	(5,849)
Trade accounts payable	6,710	20,566
Customer advances on uncompleted contracts	(1,958)	5,324
Related parties	(392)	(10,766)
Other current liabilities	(4,474)	11,266
CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(14,084)	10,242
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	24,226	376
Proceeds from sale of property and equipment	-	143
Purchase of investments	(25,077)	(1,444)
Acquisition of property and equipment	(15,862)	(18,228)
CASH USED IN INVESTING ACTIVITIES	(16,713)	(19,153)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of Unit Purchase Options	404	-
Proceeds from debt	187,442	79,608
Repayments of debt	(158,181)	(72,461)
CASH PROVIDED BY FINANCING ACTIVITIES	29,665	7,147

Effect of exchange rate changes on cash and cash equivalents	761	2,705
NET (DECREASE) INCREASE IN CASH	(371)	941
Cash and equivalents - Beginning of period	18,496	15,930
Cash and equivalents - End of period	$18,125	$16,871
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$8,718	$4,778
Taxes	$20,415	$7,018
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Assets acquired under capital lease and debt	$19,249	$44,624
Ordinary shares issued in cashless exercise of warrants	$26,537	$-
Shares issued under earnout share program	$11,690	$5,765
Dividend Payable	$4,963	$-

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

5

Tecnoglass Inc. and Subsidiaries

Condensed Consolidated Statements of Shareholders' Equity

For the nine months ended September 30, 2016

(In thousands, except share data)

(Unaudited)

	Ordinary Shares, $0.0001 Par Value Shares	**Amount**	**Additional Paid in Capital**	**Legal Reserve**	**Retained Earnings**	**Accumulated Other Comprehensive (Loss)**	**Total Shareholders' Equity**
Balance at December 30, 2015	26,895,636	$ 3	$ 45,584	$ 1,367	$ 17,354	$ (31,169)	$ 33,139
Cash Dividend	-	-	-	-	(4,857)	-	(4,857)
Earnout shares released	1,000,000	-	11,690	-	-	-	11,690
Stock dividend	-	-	11,188	-	(11,188)	-	-
Exercise of warrants	2,212,043	-	26,537	-	-	-	26,537
Exercise of Unit Purchase Options	38,711	-	404	-	-	-	404
Foreign currency translation	-	-	-	-	-	8,690	8,690
Net income	-	-	-	-	20,114	-	20,114
Balance at September 30, 2016	30,146,390	$ 3	$ 95,403	$ 1,367	$ 21,423	$ (22,479)	$ 95,717

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

6

Tecnoglass Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Amounts in thousands, except share and per share data)

(Unaudited)

Note 1. General

Business Description

Tecnoglass Inc. (“TGI,” the “Company,” “we,” “us” or “our”) was incorporated in the Cayman Islands on September 21, 2011 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 more than 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.

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”) for interim reporting purposes. 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, 2015. 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 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, earnout shares, investments 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 earnout share liability and warrant liability further discussed below in this note and Notes 10 and 11, respectively. These financial statements reflect all adjustments that in the opinion of management are necessary for a fair statement of the financial position, results of operations and cash flows for the period presented, and are of a normal, recurring nature.

Note 2. Summary of significant accounting policies

Foreign Currency Translation

The condensed consolidated financial statements are presented in U.S. Dollars, the reporting currency. Our foreign subsidiaries' local currency is the Colombian Peso, which is also their functional currency as determined by the analysis of markets, costs and expenses, assets, liabilities, financing and cash flow indicators. As such, our subsidiaries' assets and liabilities are translated at the exchange rate in effect at the balance sheet date, with equity being translated at the historical rates. Revenues and expenses of our foreign subsidiaries are translated at the average exchange rates for the period. The resulting cumulative foreign currency translation adjustments from this process are included as a component of accumulated other comprehensive income (loss). Therefore, the U.S. Dollar value of these items in our financial statements fluctuates from period to period.

Also, exchange gains and losses arising from transactions denominated in a currency other than the functional currency are included in the condensed consolidated statement of operations as foreign exchange gains and losses within non-operating income, net.

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. Delivery to the customer is deemed to have occurred when the title is passed to the customer. 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, which amount to 17% and 20% of the Company’s sales for the nine months ended September 30, 2016 and 2015, respectively, and 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 and installation of products, 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. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in contract performance and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined and have not had a material effect on the Company’s financial statements.

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. Interest incurred while acquired property is under construction and installation 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 operating 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

Earnout shares liability

In accordance with ASC 815 - Derivatives and hedging, the Company’s obligation to issue ordinary shares upon the achievement of certain financial targets (“Earnout Shares”) are not considered indexed to the Company’s own stock and therefore are accounted for as a liability with fair value changes being recorded in the condensed consolidated statements of operations and comprehensive income. This liability is subject to re-measurement at each balance sheet date and adjusted at each reporting period until released or until the expiration of the liability upon the release of the Company’s audited financial statements for the year ended December 31, 2016 under the governing agreement, and any change in fair value is recognized in the Company’s condensed consolidated statement of operations.

When the earnout shares are released from the escrow account upon achievement of the conditions set forth in the earnout share agreement, the Company records the fair value of the released shares out of the earnout share liability and into ordinary shares and additional paid-in capital within the shareholders equity section of the Company’s condensed consolidated balance sheet.

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 the warrants are exercised by warrant holder or they expire, 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 at each reporting period 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 11 for additional details about the Company's warrants.

When the warrants are exercised for ordinary shares, the Company remeasures the fair value of the exercised warrants as of the date of exercise using the over-the-counter fair market value and records the change in fair value from the last reporting date to the date of exercise in the Company's condensed consolidated statement of operations. The fair value of the exercised warrants on the date of exercise is recorded as a charge to additional paid-in capital in shareholders' equity.

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.

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.

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. Income per share assuming dilution (diluted earnings per share) would give effect to dilutive options, warrants, earnout shares, and other potential ordinary shares outstanding during the period. 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 calculation of diluted earnings per share for the nine months ended September 30, 2016 reflects 3,256,968 dilutive securities, including 1,313,139 related to the annualized dividend declared of $0.50 per share authorized on August 4, 2016 by the Board of Directors.

The following table sets forth the computation of the basic and diluted earnings per share for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net Income (Loss)	$(7,923)	$(1,938)	$20,114	$(11,076)
Denominator				
Denominator for basic earnings per ordinary share - weighted average shares outstanding	28,312,368	25,426,250	27,489,954	25,125,179
Effect of dilutive warrants, options, earnout shares, and stock dividends declared	-	-	3,256,968	-
Denominator for diluted earnings per ordinary share - weighted average shares outstanding	28,312,368	25,426,250	30,746,922	25,127,179

Basic earnings per ordinary share	$(0.28)	$(0.08)	$0.73	$(0.44)
Diluted earnings per ordinary share	$(0.28)	$(0.08)	$0.65	$(0.44)

10

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. The Company evaluated historical information regarding claims for replacements under warranties and concluded that the costs that the Company has incurred in relation to these warranties have not been material.

Non-Operating Income, net

The Company recognizes non-operating income 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 Colombia.

Shipping and Handling Costs

The Company classifies amounts billed to customers related to shipping and handling as product revenues. The Company records and presents shipping and handling costs in selling expenses. Shipping and handling costs for th