

Tecnoglass Inc.  
Form 10-Q  
August 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

**(MARK ONE)**

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

**For the quarterly period ended June 30, 2014**

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

**For the transition period from to**

**Commission file number: 001-35436**

**TECNOGLASS INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Cayman Islands**

(State or other jurisdiction of incorporation or organization)

**N/A**

(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  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  No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 24,351,933 ordinary shares as of August 8, 2014.



**TECNOGLASS INC.**

**FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2014**

**TABLE OF CONTENTS**

|  | Page |
|--|------|
| Part I. Financial Information  |      |
| <u>Item 1. Financial Statements (Unaudited)</u>  |      |
| <u>Condensed Consolidated Balance Sheets</u>   | 3    |
| <u>Condensed Consolidated Statements of Operations and Comprehensive Income</u>                      | 4    |
| <u>Condensed Consolidated Statements of Cash Flows</u>   | 5    |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 6    |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 17   |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                            | 21   |
| <u>Item 4. Controls and Procedures</u>   | 21   |
| <u>Part II. Other Information</u>  |      |
| <u>Item 6. Exhibits</u>  | 24   |
| <u>Signatures</u>  | 25   |

**Item 1. Financial Statements.****Tecnoglass Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****(In thousands, except share and per share data)****(Unaudited)**

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
| <b>ASSETS</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents                                     | \$17,444         | \$ 2,866             |
| Restricted cash   | -                | 3,633                |
| Due from transfer agent                                       | -                | 15,908               |
| Subscription receivable                                       | -                | 6,611                |
| Trade accounts receivable, net                                | 80,090           | 59,010               |
| Due from related parties                                      | 20,005           | 19,058               |
| Inventories   | 25,319           | 24,181               |
| Other current assets  | 53,706           | 29,303               |
| Total current assets  | 196,564          | 160,570              |
| Long term assets:   |                  |                      |
| Property, plant and equipment, net                            | 92,391           | 87,382               |
| Other long term assets  | 269              | 262                  |
| Total long term assets  | 92,660           | 87,644               |
| Total assets  | <b>\$289,224</b> | <b>\$ 248,214</b>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                   |                  |                      |
| Current liabilities:  |                  |                      |
| Accounts payable and accrued expenses                         | \$39,316         | \$ 37,682            |
| Current portion of customer advances on uncompleted contracts | 27,835           | 28,470               |
| Short-term debt and current portion of long term debt         | 54,973           | 29,720               |
| Note payable to shareholder                                   | 80               | 80                   |
| Other current liabilities                                     | 14,370           | 12,545               |
| Total current liabilities                                     | 136,574          | 108,497              |
| Long term liabilities:  |                  |                      |
| Warrant liability   | 31,745           | 18,280               |
| Customer advances on uncompleted contracts                    | 10,685           | 8,220                |
| Long term debt  | 45,504           | 48,097               |
| Total liabilities   | 224,508          | 183,094              |

**COMMITMENTS AND CONTINGENCIES**

Edgar Filing: Tecnoglass Inc. - Form 10-Q

|  |           |            |
|--|-----------|------------|
| Shareholders' equity   |           |            |
| Preferred shares, \$0.0001 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2014  | -         | -          |
| Ordinary shares, \$0.0001 par value, 100,000,000 shares authorized, 24,330,408 and 24,214,670 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively | 2         | 2          |
| Legal reserves   | 1,367     | 1,367      |
| Additional paid-in capital   | 41,853    | 40,693     |
| Retained earnings  | 14,215    | 18,488     |
| Cumulative translation adjustment  | 7,279     | 4,570      |
| Total shareholders' equity   | 64,716    | 65,120     |
| Total liabilities and shareholders' equity   | \$289,224 | \$ 248,214 |

The Accompanying Notes are an Integral Part of these Condensed Consolidated Financial Statements.

**Tecnoglass Inc. and Subsidiaries****Condensed Consolidated Statements of Operations and Comprehensive Income****(Amounts in thousands, except share and per share amounts)****(Unaudited)**

|  | Three months ended June 30, |            | Six months ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2014                        | 2013       | 2014                      | 2013       |
| Operating revenues                                 | \$ 51,936                   | \$ 44,330  | \$ 99,777                 | \$ 83,961  |
| Cost of sales                                      | 35,287                      | 30,971     | 68,532                    | 58,689     |
| Gross Profit                                       | 16,649                      | 13,359     | 31,245                    | 25,272     |
| Operating expenses, net                            | 8,230                       | 7,480      | 14,969                    | 14,471     |
| Operating income                                   | 8,419                       | 5,879      | 16,276                    | 10,801     |
| Loss on change in fair value of warrant liability  | (4,645                      | ) -        | (13,525                   | ) -        |
| Non-operating revenues                             | 1,191                       | 862        | 2,477                     | 1,741      |
| Interest expense                                   | 2,294                       | 1,818      | 4,267                     | 3,487      |
| Income before taxes                                | 2,671                       | 4,923      | 961                       | 9,055      |
| Income tax provision                               | 2,263                       | 1,719      | 5,234                     | 3,350      |
| Net (loss) income                                  | \$ 408                      | \$ 3,204   | \$ (4,273                 | ) \$ 5,705 |
| Comprehensive income:                              |                             |            |                           |            |
| Net (loss) income                                  | 408                         | 3,204      | (4,273                    | ) 5,705    |
| Foreign currency translation adjustments           | 2,885                       | (342       | ) 2,709                   | 1,636      |
| Total comprehensive (loss) income                  | \$ 3,293                    | \$ 2,862   | \$ (1,564                 | ) \$ 7,341 |
| Basic (loss) income per share                      | \$ 0.02                     | \$ 0.16    | \$ (0.18                  | ) \$ 0.28  |
| Diluted (loss) income per share                    | \$ 0.02                     | \$ 0.16    | \$ (0.18                  | ) \$ 0.28  |
| Basic weighted average common shares outstanding   | 24,311,199                  | 20,567,141 | 24,276,947                | 20,567,141 |
| Diluted weighted average common shares outstanding | 27,986,839                  | 20,567,141 | 24,276,947                | 20,567,141 |

The Accompanying Notes are an Integral Part of these Condensed Consolidated Financial Statements.



**Tecnoglass Inc. and Subsidiaries****Consolidated Statements of Cash Flows****(Amounts in thousands)****(Unaudited)**

|  | Six Months Ended June 30, |                  |
|--|---------------------------|------------------|
|  | 2014                      | 2013             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                           |                  |
| Net (loss) income  | \$ (4,273                 | ) \$ 5,705       |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities: |                           |                  |
| Provision for bad debts  | 20                        | 1,595            |
| Provision for obsolete inventory   | -                         | 758              |
| Depreciation and amortization  | 4,972                     | 3,995            |
| Equity method income   | 51                        | (28 )            |
| Change in value of derivative liability  | (24 )                     | -                |
| Change in fair value of warrant liability  | 13,525                    | -                |
| Deferred income taxes  | 818                       | 822              |
| Changes in operating assets and liabilities:   |                           |                  |
| Due from transfer agent  | 15,908                    | -                |
| Subscription receivable  | 6,611                     | -                |
| Trade accounts receivable  | (21,027 )                 | 7,716            |
| Inventories  | (432 )                    | (3,769 )         |
| Prepaid expenses and other current assets  | (391 )                    | 229              |
| Other assets   | -                         | 180              |
| Accounts payable and accrued expenses  | (4,073 )                  | (11,421 )        |
| Customer advances on uncompleted contracts   | 634                       | (2,210 )         |
| Other current liabilities  | (12,687 )                 | (4,225 )         |
| <b>CASH USED IN OPERATING ACTIVITIES</b>   | <b>(368 )</b>             | <b>(653 )</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                           |                  |
| Proceeds from sale of investments  | 337                       | 1,231            |
| Restricted cash  | 3,572                     | -                |
| Purchase of investments  | (869 )                    | (911 )           |
| Acquisition of property and equipment  | (7,282 )                  | (10,638 )        |
| <b>CASH USED IN INVESTING ACTIVITIES</b>   | <b>(4,242 )</b>           | <b>(10,318 )</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                           |                  |
| Proceeds from debt   | 55,080                    | 33,277           |
| Proceeds from the sale of common stock   | 1,000                     | -                |
| Proceeds from the exercise of warrants   | 160                       | -                |
| Repayments of debt   | (37,568 )                 | (17,734 )        |
| <b>CASH PROVIDED BY FINANCING ACTIVITIES</b>   | <b>18,672</b>             | <b>15,543</b>    |

Edgar Filing: Tecnoglass Inc. - Form 10-Q

|  |           |          |
|--|-----------|----------|
| Effect of exchange rate changes on cash and cash equivalents | 516       | (4,223 ) |
| NET INCREASE IN CASH   | 14,578    | 349      |
| CASH — Beginning of year                                     | 2,866     | 2,135    |
| CASH — End of year   | \$ 17,444 | \$ 2,484 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION            |           |          |
| Cash paid during the year for:                               |           |          |
| Interest   | \$ 3,493  | \$ 2,671 |
| Taxes  | \$ -      | \$ -     |
| NON-CASH INVESTING AND FINANCING ACTIVITIES:                 |           |          |
| Assets acquired under capital lease                          | \$ 2,462  | \$ 891   |

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

## **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, 2011 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 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.

## **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 SEC. 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. 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.

These unaudited condensed consolidated financial statements include the consolidated results of TGI and its indirect wholly-owned subsidiaries TG and ES. Material intercompany accounts, transactions and profits are eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements are prepared in accordance with the rules of the Securities and Exchange Commission ("SEC") for interim reporting purposes. These financial statements include adjustments of a normal recurring nature considered necessary by management for a fair presentation of the Company's unaudited condensed consolidated financial position, results of operations and cash flows.

The results reported in these unaudited condensed consolidated financial statements are not necessarily indicative of results that may be expected for the entire year. We derived the condensed consolidated balance sheet data as of December 31, 2013 from audited financial statements, but do not include all disclosures required by U.S. GAAP. 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, 2013 ("2013 Annual Report on Form 10-K"). The disclosures included in these unaudited, condensed consolidated financial statements generally do not repeat those included in the annual financial statements.

**Tecnoglass Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

Estimates inherent in the preparation of these unaudited, 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.

**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 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 Cumulative Translation Adjustments, a component of Equity in the condensed consolidated Balance Sheet. Transaction and remeasurement gains or losses resulting from foreign currency transactions are recorded in the consolidated condensed Statement of Operations.

***Revenue Recognition***

The Company generates revenue from manufactured product sales of glass and aluminum products. Revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fees are fixed and determinable, and (iv) 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.

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 billable upon various events, including the attainment of performance milestones, delivery of product and/or services, or completion of the contract. Included within Other current assets is approximately \$16 million and \$12 million of unbilled receivables as of June 30, 2014 and December 31, 2013, respectively. 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 six month period ended June 30, 2014 and the year ended December 31, 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.

**Tecnoglass Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

***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 programs.

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 June 30, 2014 and December 31, 2013, the reserve for doubtful accounts was \$287 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 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 June 30, 2014 and December 31, 2013 amounted to \$1,474 and \$1,438, respectively.

***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  |

### ***Warrant liability***

As a result of the Public Offering, the Private Placement and the merger, an aggregate of 9,200,000 warrants were issued. Of the aggregate total, 4,200,000 warrants were issued in connection with the Public Offering (“Insider Warrants”), 4,800,000 warrants were issued in connection with the Private Placement (“IPO 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 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 consolidated statement of operations. 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 20,045 Warrants have been exercised as of June 30, 2014. See more about the Company’s registration statement at Note 12.

### ***Income Taxes***

The Company’s operations in Colombia are subject to the taxing jurisdiction of the Republic of Colombia. TGI and Tecnoglass Holding are subject to the taxing jurisdiction of the Cayman Islands. Annual tax periods prior to December 2012 are no longer subject to examination by taxing authorities in Colombia.



**Tecnoglass Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

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 utilizes FASB ASC Topic No. 260, 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, 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 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 December 31, 2013, and 3,647,529 ordinary shares of Andina Acquisition outstanding at the time of the merger.

***Recently Issued Accounting Pronouncements***

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09). ASU 2014-09 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.

### Note 3. Variable Interest Entities

Following the merger on December 20, 2013, the Company conducted an initial evaluation as a reporting entity of its involvement with certain significant related party business entities as of December 31, 2013 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 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, 2014 and 2013 were \$ 9.6 million and 7.3 million respectively, and for the six month periods ended June 30, 2014 and 2013 were \$ 18.1 million and \$ 11.6 million, respectively. Outstanding receivables from ESW LLC at June 30, 2014 and December 31, 2013 were \$ 13.6 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 three month periods ended June 30, 2014 and 2013, and for the six month periods ended June 30, 2014 and 2013 were less than \$0.1 million in all periods. Outstanding receivables from VS at June 30, 2014 and December 31, 2013 were \$ 0.6 million and \$2.7 million, respectively.

**Tecnoglass Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

We evaluated 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, the Company concluded that (i) neither variable interest entity requires subordinated financial support for its operations as these operations are designed to provide residual returns to their equity investors, (ii) the Company's explicit variable interests are its arms-length commercial relationships which do not absorb the entities' risks and variability, (iii) 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 that (iv) 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, 2014 or as of December 31, 2013.

As of June 30, 2014, there were no changes in the facts or circumstances since the initial evaluation that would require consolidation of these entities.

**Note 4. Inventories**

Inventories are comprised of the following:

|                 | June 30,<br>2014 | December 31,<br>2013 |
|-----------------|------------------|----------------------|
| Raw materials   | \$ 18,959        | \$ 17,121            |
| Work in process | 2,611            | 3,243                |

|                            |          |           |
|----------------------------|----------|-----------|
| Finished goods             | 2,440    | 2,741     |
| Stores and spares          | 2,602    | 2,404     |
| Packing material           | 181      | 110       |
|                            | 26,793   | 25,619    |
| Less: inventory allowances | (1,474 ) | (1,438 )  |
|                            | \$25,319 | \$ 24,181 |

#### Note 5. Property, Plant and Equipment, Net

Property, plant and equipment consist of the following:

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
| Building                                  | \$36,266         | \$ 34,710            |
| Machinery and equipment                   | 77,316           | 61,539               |
| Office equipment and software             | 3,425            | 3,221                |
| Vehicles                                  | 1,333            | 1,193                |
| Furniture and fixtures                    | 1,971            | 1,888                |
| Total property, plant and equipment       | 120,311          | 102,551              |
| Accumulated depreciation and amortization | (40,453 )        | (27,403 )            |
| Net value of property and equipment       | 79,858           | 75,148               |
| Land                                      | 12,533           | 12,234               |
| Total property, plant and equipment, net  | \$92,391         | \$ 87,382            |

**Tecnoglass Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

Depreciation and amortization expense, inclusive of capital lease amortization, for the three month periods ended June 30, 2014 and 2013 was \$3,020 and 2,370, respectively, and for the six month periods ended June 30, 2014 and 2013 was \$ 4,972 and \$3,995 respectively.

The Company closed on its contract executed in 2013 for the purchase of land adjacent to the Company's current facilities for approximately \$7.3 million and, as of June 30, 2014, is in the process of registering the property within requirements of Colombian laws. This purchase brings the Company's total manufacturing facilities to approximately 2.3 million square feet.

**Note 6. Long-Term Debt**

Long-term debt is comprised of the following:

|  | June 30,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| Obligations under borrowing arrangements                             | \$100,477        | \$ 77,817            |
| Less: Current portion of long-term debt and other current borrowings | 54,973           | 29,720               |
| Long-term debt   | \$45,504         | \$ 48,097            |

At June 30, 2014, the Company owed approximately \$100,477 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 six months to 10 years that bear interest at rates ranging from 5.6% to 10.2%. These loans are generally secured by substantially all of the Company's accounts receivable and/or inventory. 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.

As of June 30, 2014, the Company was not in compliance with certain financial covenants for its financial obligations with Banco Colpatría. In April 2014, the bank confirmed with the Company it would take no actions to accelerate payments, increase interest, or take any other actions as a result of the non-compliance with the covenants against the Company and is currently working with the Company to redefine such financial covenants to better reflect the operations of the Company. As of the date of the filing of these condensed consolidated unaudited financial statements

as of and for the period ended June 30, 2014, the April 2014 confirmation by Colpatria continues in force with no change to the bank's statements expressed therein.

The Company has approximately \$2.3 million available in two lines of credit under a revolving note arrangement as of June 30, 2014. The Revolving Notes expired and were renewed on April 3, 2014. The floating interest rates on the revolving notes are between DTF+4.6% and DTF+5.2%. DTF is the primary measure of interest rates in Colombia. The note is secured by all assets of the Company. At June 30, 2014 and December 31, 2013, \$1,498 and \$1,872 was outstanding under these lines, respectively.

Interest expense for the three month periods ended June 30, 2014 and 2013 was \$ 1.6 million and \$ 0.8 million, respectively, and for the six month periods ended June 30, 2014 and 2013 was \$3.6 million and \$ 2.5 million, respectively.

**Tecnoglass Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

**Note 7. 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. For tax years 2013 through 2015, a special additional CREE tax will apply at a rate of 9% to certain tax payers including the Company. Starting in 2016, the rate for this tax will be 8%.

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

|                                | Three months ended June 30, |          | Six months ended June 30, |          |
|--------------------------------|-----------------------------|----------|---------------------------|----------|
|                                | 2014                        | 2013     | 2014                      | 2013     |
| Current income tax             |                             |          |                           |          |
| Foreign                        | 1,900                       | 1,049    | 4,416                     | 2,044    |
| Deferred income tax            |                             |          |                           |          |
| Foreign                        | 363                         | 670      | 818                       | 1,306    |
| Total Provision for Income tax | \$ 2,263                    | \$ 1,719 | \$ 5,234                  | \$ 3,350 |

The Company's effective tax rates of 83% and 544% for the three and six month periods ended June 30, 2014 reflect non-deductible losses of \$4,585 and \$13,525, respectively due to the change in fair value of the Company's warrant liability.

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 12 months of June 30, 2014. The unrecognized tax benefits may increase or change during the next year for items that arise in the ordinary course of business.

**Note 8. 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 June 30, 2014):

|   | Quotes Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|--|--|--|
| Warrant Liability                       | -  | -  | 31,745   |
| Interest Rate Swap Derivative Liability | -  | 139  | -  |

#### 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.



**Tecnoglass Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

**Note 9. Segment and Geographic Information**

The Company operates a single segment business for product sales which consists of geographical sales territories as follows:

|                | Three months ended June 30, |           | Six months ended June 30, |           |
|----------------|-----------------------------|-----------|---------------------------|-----------|
|                | 2014                        | 2013      | 2014                      | 2013      |
| Colombia       | 21,797                      | 25,373    | 42,752                    | 48,335    |
| United States  | 26,041                      | 15,540    | 47,908                    | 27,920    |
| Panama         | 3,418                       | 2,221     | 7,833                     | 5,488     |
| Other          | 680                         | 1,196     | 1,284                     | 2,218     |
| Total Revenues | \$ 51,936                   | \$ 44,330 | \$ 99,777                 | \$ 83,961 |

**Note 10. 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:

|                     | June 30, 2014 |   | December 31, 2013 |   |
|---------------------|---------------|---|-------------------|---|
| Stock Price         | \$ 12.08      |   | \$ 8.55           |   |
| Dividend Yield      | N/A           |   | N/A               |   |
| Risk-free rate      | 0.47          | % | 0.78              | % |
| Expected Term       | 2.47          |   | 2.97              |   |
| Expected Volatility | 35.98         | % | 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 |
| Warrants exercised for the six months ended June 30, 2014 | (60 )    |
| Fair value adjustment for six months ended June 30, 2014  | 13,525   |
| Balance at June 30, 2014                                  | \$31,745 |

**Tecnoglass Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

**Note 11. Related Parties**

The Company's major related party entities disclosed in this footnote are: (i) ESW LLC, a Florida LLC partially owned by the Company's Chief Executive Officer and Chief Operating Officer, (ii) 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, 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.

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

|                                  | At June 30,<br>2014 | At December 31,<br>2013 |
|----------------------------------|---------------------|-------------------------|
| <u>Assets</u>                    |                     |                         |
| Due from ESW LLC                 | \$ 13,593           | \$ 11,823               |
| Due from VS                      | 602                 | 2,690                   |
| Due from UT ESW                  | 3,776               | 3,199                   |
| Due from other related parties   | 2,034               | 1,346                   |
|                                  | \$ 20,005           | \$ 19,058               |
| <u>Liabilities</u>               |                     |                         |
| Due to A Construir S.A.          | \$ (1,075 )         | \$ (2,314 )             |
| Due to UT Semáforos Barranquilla | (2,092 )            | (1,287 )                |
| Due to Construseñales S.A.       | -                   | (3,633 )                |
| Due to other related parties     | (622 )              | (1,163 )                |
|                                  | \$ (3,789 )         | \$ (8,397 )             |

|          | Three months ended June 30, |      | Six months ended June 30, |      |
|----------|-----------------------------|------|---------------------------|------|
|          | 2014                        | 2013 | 2014                      | 2013 |
| Revenues |                             |      |                           |      |

Edgar Filing: Tecnoglass Inc. - Form 10-Q

|                  |       |        |        |        |
|------------------|-------|--------|--------|--------|
| Sales to ESW LLC | 9,638 | 7,333  | 18,151 | 11,642 |
| Sales to VS      | 57    | 27     | 96     | 40     |
| Sales to UT ESW  | 49    | 2,780  | 115    | 6,517  |
|                  | 9,744 | 10,140 | 18,362 | 18,199 |

Sales to other related parties was less than 0.1 million in the three months ended and six months ended June 30, 2014 and 2013.

Expenses

|                                     |       |     |       |     |
|-------------------------------------|-------|-----|-------|-----|
| Fees paid to directors and officers | 621   | 304 | 621   | 421 |
| Payments to other related parties*  | 1,162 | 577 | 1,162 | 666 |

\*Payments to other related parties in 2013 and 2014 consists of donations to Fundación Tecnoglass and for 2014 the 1,162 was all paid in the three months ended June 30, 2014.

**Tecnoglass Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

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, 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.

On April 16, 2014, the Company guaranteed approximately \$300 of bank loans for the Company's Foundation. The guarantee is in good standing and no liabilities have been recorded.

**Note 12. 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 will not receive any proceeds from the sale of the securities in the registration statement, although we could receive up to \$40,000,000 upon the exercise of all of the insider warrants and working capital warrants, up to \$9,400,000 upon the exercise of the unit purchase options, up to \$7,200,000 upon the exercise of the warrants underlying such unit purchase options and up to \$33,600,000 upon the exercise of the warrants issued in the Public Offering. Any amounts we receive from such exercises will be used for working capital and other general corporate purposes.

Certain holders of ordinary shares and warrants are restricted from selling any of their securities covered by this registration statement until December 20, 2014.

Following the SEC's Notice of Effectiveness dated June 16, 2014 of the Company's registration statement on S-1, an aggregate of 20,045 warrants have been exercised as of June 30, 2014. As of the date that these condensed unaudited consolidated financial statements were available for publication, a total of 41,570 warrants had been exercised for Company ordinary shares through August 8, 2014.

### **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 June 30, 2014 and December 31, 2013.

### **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, 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. The derivative contracts are recorded on the balance sheet as liabilities as of June 30, 2014 at an aggregate fair value of \$139. Changes in the fair value of the derivatives are recorded in current earnings.

### **Note 15. Commitments and Contingencies**

#### *Guarantees*

In 2013, the Company guaranteed a \$3,633 bank loan for Construimos y Señalizamos S.A. The borrowed funds were deposited with ES to ensure enough resources for large projects that could potentially require significant uses of cash by the Company. At the June 30, 2014, the guarantee was in good standing and no liabilities are recorded. The funds were repaid to the bank on April 1, 2014. In conjunction with such, the guarantee was released.

**Tecnoglass Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

Guarantees on behalf of or from related parties are disclosed in Note 11 - Related Parties.

***Legal Matters***

Tecnoglass S.A. and Tecnoglass USA, Inc., a related party, are 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 denies liability and intends to rigorously defend the claim in court. TG's insurance carrier is providing coverage to TG under a \$3.0 million wasting policy, which means that the attorneys' fees and expenses incurred during the defense of the claim reduce the amount of coverage available. TG's U.S. counsel believe that the claimants' initial request of \$6.0 million in negotiations is without merit or substance. Based on pre-trial settlement negotiations, TG's U.S. counsel believe that the claimants will settle for substantially less than the \$3.0 million policy coverage, and uninsured losses in excess of the policy are unlikely. TG's counsel believes that an uninsured loss to the Company above the coverage limits is unlikely and immaterial. A trial date has not been set for this case.

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 17<sup>th</sup> 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 tortfeasor, it cannot sue for indemnity. A trial date has not yet been set for this case. TG's counsel believes that a liability in this claim is unlikely and immaterial.

***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. Subsequent Events**

The Company has evaluated events that occurred subsequent to June 30, 2014 and through the date the financial statements were available to be issued, and concluded that no additional subsequent events required disclosure other than those disclosed in these financial statements.



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

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “continue,” or the negative of such terms or similar expressions. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those described in our other Securities and Exchange Commission (“SEC”) filings. References to “we,” “us” or “our” are to Tecnoglass Inc. (formerly Andina Acquisition Corporation), except where the context requires otherwise. The following discussion should be read in conjunction with our condensed consolidated financial statements and related notes thereto included elsewhere in this report.

### **Overview**

The Company is a holding company operating through its 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.

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 more than 800 customers in North, Central and South America, and exports almost half of its production to foreign countries.

In Panama, ES sells products primarily to companies participating in large construction projects in the higher income areas of the city. ES products were supplied in the Soho Plaza, a complex of a shopping mall and two skyscrapers which brought in approximately \$18 million in revenues to the Company since the inception of the contract in 2012.

TG sells to its customers using several sales teams based out of Colombia to specifically target regional markets in South, Central and North America. In addition, TG has approximately ten free-lance sales representatives based in North America.

ES sells its products through four sales teams based out of Colombia, Peru, Panama and the US. The Colombia sales team is the largest sales group and has deep contacts throughout the construction industry, and markets ES's products and installation services. The sales team in Peru is responsible for sales in South America excluding Colombia. Sales forces in Panama and the US are not through subsidiaries but arms-length agreements with sales representatives.

### **Liquidity**

As of June 30, 2014 and December 31, 2013, the Company had cash and cash equivalents of approximately \$17.4 million and \$6.5 million, respectively. The significant change is due to the receipt in January 2014 of approximately \$22.5 million proceeds from the reverse merger and stock subscription agreement in December 2013 and the Company has been using these funds to finance working capital to leverage the company's growth in operations.

The Company expects that cash flow from operations, proceeds from borrowings under the Company's lines of credit, and proceeds from the 2013 merger will be its primary sources of liquidity and will be sufficient to fund the Company's cash requirements for the next twelve months.

Additionally, the Company could receive up to \$90.2 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 \$33.6 million upon the exercise of the warrants issued in the Company's IPO. As of June 30, 2014, following the Company's registration statement becoming effective on June 16, 2014, 20,045 warrants have been exercised for proceeds of \$160,300.

**Capital Resources**

As of May 2014, the Company closed on its contract executed in 2013 for the purchase of land adjacent to the Company's current facilities for \$7.3 million. This brings the Company's total manufacturing facilities to approximately 2.3 million square feet.

The Company transforms glass and aluminum which requires significant investments in state of the art technology. In the six month period ended June 30, 2014, the Company made investments primarily in building and construction, and machinery and equipment in the amount of \$7.2 million, compared to \$10.3 in the first six months of 2013.

| Results of Operations                     | Three Months<br>Ended<br>June 30<br>2014 |        | Three Months<br>Ended<br>June 30<br>2013 |        | Six Months<br>Ended<br>June 30<br>2014 |        | Six Months<br>Ended<br>June 30<br>2013 |        |
|---|--|--------|--|--------|--|--------|--|--------|
| Net Sales                                 | 51,936                                   | 100 %  | 44,330                                   | 100 %  | 99,777                                 | 100 %  | 83,961                                 | 100 %  |
| Cost of sales                             | 35,287                                   | -      | 30,971                                   | -      | 68,532                                 | -      | 58,689                                 | -      |
| Gross margin                              | 16,649                                   | 32.1 % | 13,359                                   | 30.1 % | 31,245                                 | 31.3 % | 25,272                                 | 30.1 % |
| Operating expenses, net                   | 8,230                                    | 15.8 % | 7,480                                    | 16.9 % | 14,969                                 | 15.0 % | 14,471                                 | 17.2 % |
| Operating income                          | 8,419                                    | 16.2 % | 5,879                                    | 13.3 % | 16,276                                 | 16.3 % | 10,801                                 | 12.9 % |
| Non-operating revenues, net               | 1,191                                    | -      | 862                                      | -      | 2,477                                  | -      | 1,741                                  | -      |
| Interest Expense                          | 2,294                                    | -      | 1,818                                    | -      | 4,267                                  | -      | 3,487                                  | -      |
| Change in fair value of warrant liability | (4,645 )                                 | -      | -  | -      | (13,525 )                              | -      | -                                      | -      |
| Income tax provision                      | 2,263                                    | -      | 1,719                                    | -      | 5,234                                  | -      | 3,350                                  | -      |
| Net income (loss)                         | 408                                      | 0.8 %  | 3,204                                    | 7.2 %  | (4,273 )                               | -4.3 % | 5,705                                  | 6.8 %  |

**Results of operations for the three months ended June 30, 2014 and June 30, 2013****Revenues**

The Company's net operating revenues increased \$7.6 million or 17.2% from \$44.3 million to \$51.9 million for the quarterly period ended June 30, 2014 compared the quarterly period ended June 30, 2013.

Sales in the U.S. market for the quarterly period ended June 30, 2014 increased \$10.5 million or 67.6% when compared to the quarterly period ended June 30, 2013. The Company continued expansion of sales 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, presented a \$3.8 million decline or 15.0% for the quarters ended June 30, 2014 compared to the same period of 2013. In terms of local currency sales in Colombia decreased 12.4% augmented by a decline in exchange rates used for translating sales in Colombian Pesos into U.S. dollars, the reporting currency. Sales to Panama grew by \$1.1 million, or 53.9% from the first quarter of 2013 compared to the first quarter of 2014.

### **Margins**

Sales margins increased to 32.1% from 30.1% in the quarterly periods ended June 30, 2014 and 2013. This increase was the result of the continuing margin improvement in the comparisons of the six months ended June 30, 2014 and 2013 discussed below.

### **Expenses**

Selling and Administrative Expenses increased 10% from \$7.5 million to \$8.2 million in the quarterly period ended June 30, 2014 when compared to the quarterly period ended June 30, 2013. The increase was a result of decreases in sales commissions resulting from new sales arrangements in key markets, offset by increases in personnel costs driven by the growth in the Company's operations, significant expenses resulting from the Company becoming publicly traded, and favorable exchange rates used in translating expenses to U.S. dollars, the reporting currency.

### **Loss – Warrants Liability**

A non-cash, non-operating loss of \$4.6 million arose from the increase in the fair value of the warrant liability in the six month period ended June 30, 2014 relative to its fair value at the end of the previous quarter ended March 31, 2014. There was no comparable warrant liability at June 30, 2013 as this derivative obligation was included in the results of operations of the Company since the date of the merger December 20, 2013 forward. 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.

### **Results of operations for the six months ended June 30, 2014 and 2013**

#### **Revenues**

The Company's net operating revenues increased \$15.8 million or 18.8% from \$84.0 million to \$99.8 million for the six month period ended June 30, 2014 compared the same period ended June 30, 2013.

Growth was mostly driven by sales the U.S. market which increased \$20 million or 71.6% in the six months ended June 30, 2014 when compared to the quarterly period ended June 30, 2013. 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, presented a \$5.5 million decline or 11.6% for the six months ended June 30, 2014 compared to the same period of 2013. In terms of local currency sales in Colombia decreased 5.2%, augmented by a decline in the exchange rates used for translating sales in Colombian pesos, into U.S. dollars, the reporting currency. Sales to Panama grew by \$2.3 million, or 42% from the first six months of 2013 to the first six months of 2014.

#### **Margins**

Sales margins increased from 30.1% to 31.3% in the six month periods ended June 30, 2013 and 2014. The company believes the increase in sales margin is a result of a higher degree of vertical manufacturing integration, optimization of inventory 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, 2013 and 2014, general selling and administrative remained relatively stable – with only a 3.4%, or \$0.5 million increase. This increase was driven by an increase in administrative expenses comprised of fees associated with becoming a publicly traded company such as external audit costs, advisory and consulting, offset by improved control of expenses.

### **Interest Expense and Foreign Exchange Gains and Losses**

During the six month periods ended June 30, 2013 and 2014, interest expense increased by \$0.8 million, about 22.33% from 3.5 million to 4.3 million in line with the increase in total debt. The Company has been able to attract offers from several domestic and foreign banks to improve the structure of debt at better terms.

**Loss – Warrants Liability**

A non-cash, non-operating loss of \$13.5 million arose from the increase in the fair value of the warrant liability in the six month period ended June 30, 2014. There was no comparable warrant liability at June 30, 2013 as this derivative obligation was included in the results of operations of the Company since the date of the merger December 20, 2013 forward. 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.

**Cash Flow from Operations and Financing Activities**

During the six month periods ended June 30, 2014 and 2013, \$0.4 million and \$0.7 million, respectively, were used in operating activities. The principal use of cash was receivables growth due to increase in operations and longer payment terms to select direct clients as part of a strategy to increase sales.

Cash generated from financing activities was \$18.7 million and \$15.5 million during the six month periods ended June 30, 2014 and 2013, respectively, primarily proceeds from bank loans and credit lines used to finance capital expenditures.

|                                     | Six months ended |          |
|-------------------------------------|------------------|----------|
|                                     | June 30,         | June 30, |
|                                     | 2014             | 2013     |
| Cash Flow from Operating Activities | \$(368 )         | \$(653 ) |
| Cash Flow from Financing Activities | 18,672           | 15,543   |
| Cash Flow from Investing            | (4,242 )         | (10,318) |
| Cash Balance – Beginning of Period  | 2,866            | 2,135    |
| Cash Balance – End of Period        | \$17,444         | \$2,484  |

**Off-Balance Sheet Arrangements**

**None**





### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

**None**

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) of 2013.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports 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 principal executive and accounting officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

A company's internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management's evaluation of the design and operating effectiveness of our internal controls over financial reporting identified material weaknesses resulting from design and operating deficiencies in the internal control system. A "material weakness" is defined as a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be

prevented or detected. A “significant deficiency” is defined as a control deficiency, or combination of control deficiencies, that adversely affects the Company’s ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Company’s annual or interim financial statements that is more than inconsequential will not be prevented or detected.

Management identified the following material weaknesses in our internal control over financial reporting as of June 30, 2014.

**Entity-Level Control** - We have not established effective internal controls for the timely identification of significant, non-routine, unusual, or complex events or transactions, inclusive of significant related party transactions and for policies related to management evaluation of certain accounting estimates.

**Financial Closing and Reporting Process** - We have not established adequate policies and procedures related to accounting and closing practices for interim and annual financial reporting, including sufficient knowledge required for accounting and financial reporting per the requirements of accounting principles generally accepted in the United States as well as periodic filing requirements with the SEC.

**Revenue Accounting** - We have not developed adequate internal controls over revenue recognition related to fixed price contract revenue in accordance with the percentage completion method.

### **Management’s Plan to Remediate Material Weaknesses**

Management will be taking the following steps to remediate the remaining material weaknesses as follows:

§ Hiring a sufficient number of full-time personnel with the requisite background, education and experience in our finance department;

§ Implementing more stringent policies and procedures regarding revenue accounting and oversight of contractual arrangements;

§ Conducting formal revenue recognition training sessions for key accounting and sales personnel;

§

Edgar Filing: Tecnoglass Inc. - Form 10-Q

Implementing formal procedures for the consistent processing of and accounting for fixed asset transactions, including a formal review process;

§ Implementing formal procedures for estimating valuation allowances for inventory, including a formal review process;

Implementing a standard financial statement reporting process, such as an accounting and close check-list, and a § formal reporting package, to be used by all departments in order for them to report information accurately, timely and in a standard format to our finance department;

§ Improving the documentation, communication, and periodic review of our accounting policies throughout our domestic and international locations for consistency with general accepted accounting principles;

§ Implementing a formalized accounting policy that addresses the appropriate procedures for significant, non-routine, unusual, or complex events or transactions;

§ Increased management oversight by creating a new Disclosure Committee comprised of senior managers with responsibility for responding to issues raised during the financial reporting process;

§ Improving the interim and annual review and reconciliation process for certain key balance sheet accounts;

§ Enhancing the training and education for our international finance and accounting personnel and new hires to our finance team;

§ Automating certain key internal controls that are currently performed manually.

#### *Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Tecnoglass S.A. and Tecnoglass USA, Inc., a related party, are 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 denies liability and intends to rigorously defend the claim in court. TG's insurance carrier is providing coverage to TG under a \$3.0 million wasting policy, which means that the attorneys' fees and expenses incurred during the defense of the claim reduce the amount of coverage available. TG's U.S. counsel believe that the claimants' initial request of \$6.0 million in negotiations is without merit or substance. Based on pre-trial settlement negotiations, TG's U.S. counsel believe that the claimants will settle for substantially less than the \$3.0 million policy coverage, and uninsured losses in excess of the policy are unlikely. A trial date has not been set for this case. TG's counsel believes that an uninsured loss to the Company above the coverage limits is unlikely and immaterial.

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 17<sup>th</sup> 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 tortfeasor, it cannot sue for indemnity. A trial date has not yet been set for this case. TG's counsel believes that a liability in this claim is unlikely and immaterial.

### ***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.

**PART II-OTHER INFORMATION**

**Item 6. Exhibits**

| Exhibit No. | Description   |
|-------------|---|
| 31.1        | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2        | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32          | Certification of Chief Executive Officers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101         | Financial statements from the Quarterly Report on Form 10-Q of Tecnoglass Inc. for the quarter ended June 30, 2014, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statement of Changes in Stockholders' Equity, (iv) Condensed Consolidated Statement of Cash Flows and (v) Notes to Unaudited Condensed Consolidated Financial Statements, as blocks of text and in detail. |
| 101.INS     | XBRL Instance Document  |
| 101.SCH     | XBRL Taxonomy Extension Schema Document   |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document  |

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TECNOGLASS INC.

By: /s/ Jose M. Daes  
Jose M. Daes  
Chief Executive Officer  
(Principal executive officer)

By: /s/ Joaquin Fernandez  
Joaquin Fernandez  
Chief Financial Officer  
(Principal financial and accounting officer)

Date: August 14, 2014