

Tecnoglass Inc.  
Form 10-Q  
November 10, 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 September 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**

**N/A**

Edgar Filing: Tecnoglass Inc. - Form 10-Q

(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  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: 24,402,933 ordinary shares as of October 31, 2014.



**TECNOGLASS INC.**

**FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 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 Income 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
Part II. Other Information	
<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)**

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,744	\$ 2,866
Restricted cash	-	3,633
Due from transfer agent	741	15,908
Subscription receivable	-	6,611
Trade accounts receivable, net	65,634	59,010
Due from related parties	20,504	19,058
Inventories	26,276	24,181
Other current assets	28,502	29,303
Total current assets	159,401	160,570
Long term assets:		
Property, plant and equipment, net	102,620	87,382
Other long term assets	6,580	262
Total long term assets	109,200	87,644
Total assets	\$ 268,601	\$ 248,214
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 34,407	\$ 32,950
Due to related parties	2,444	8,397
Current portion of customer advances on uncompleted contracts	9,165	24,805
Short-term debt and current portion of long term debt	56,567	29,720
Note payable to shareholder	80	80
Other current liabilities	14,572	12,545
Total current liabilities	117,235	108,497
Long term liabilities:		
Warrant liability	25,049	18,280
Customer advances on uncompleted contracts	10,754	8,220
Long term debt	45,686	48,097
Total liabilities	198,724	183,094

COMMITMENTS AND CONTINGENCIES	-	-
Shareholders' equity		
Preferred shares, \$0.0001 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	-	-
Ordinary shares, \$0.0001 par value, 100,000,000 shares authorized, 24,402,933 and 24,214,670 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	2	2
Legal reserves	1,367	1,367
Additional paid-in capital	47,590	45,850
Retained earnings	25,475	18,488
Cumulative translation Adjustment	(4,557	) (587
Total shareholders' equity	69,877	65,120
Total liabilities and shareholders' equity	\$ 268,601	\$ 248,214

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

**Tecnoglass Inc. and Subsidiaries****Condensed Consolidated Statements of Income and Comprehensive Income**

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Operating revenues	\$53,453	45,501	\$153,230	\$129,462
Cost of sales	37,008	31,184	105,540	89,873
Gross Profit	16,445	14,317	47,690	39,589
Operating expenses, net	8,795	8,219	23,764	22,690
Operating income	7,650	6,098	23,926	16,899
(Gain)/Loss on change in fair value of warrant liability	(6,756	) -	6,769	-
Non-operating revenues	(1,003	) (536	) (3,480	) (2,277
Interest expense	2,380	1,888	6,647	5,375
Income before taxes	13,029	4,746	13,990	13,801
Income tax provision	1,770	1,552	7,004	4,902
Net income	\$11,259	\$3,194	\$6,986	\$8,899
Comprehensive income				
Net income	11,259	3,194	6,986	8,899
Foreign currency translation adjustments	(6,680	) (327	) (3,971	) 1,309
Total comprehensive income	\$4,579	\$2,867	\$3,015	\$10,208
Basic income per share	\$0.46	\$0.16	\$0.29	\$0.43
Diluted income per share	\$0.40	\$0.16	\$0.25	\$0.43
Basic weighted average common shares outstanding	24,364,014	20,567,141	24,306,288	20,567,141
Diluted weighted average common shares outstanding	28,137,166	20,567,141	27,761,268	20,567,141

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



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

	September 30, 2014	September 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 6,986	\$ 8,899
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for bad debts	21	2,358
Provision for obsolete inventory	-	1,121
Depreciation and amortization	7,777	5,977
Change in value of derivative liability	89	117
Change in fair value of warrant liability	6,769	-
Deferred income taxes	352	814
Changes in operating assets and liabilities:		
Due from transfer agent	15,908	-
Subscription receivable	6,611	-
Trade accounts receivable	(10,710 )	(2,272 )
Due from related parties	(2,507 )	-
Inventories	(3,535 )	(3,207 )
Other current assets	(5,307 )	(2,292 )
Other long term assets	(6,682 )	178
Accounts payable and accrued expenses	4,344	2,099
Due to related parties	(5,412 )	-
Customer advances on uncompleted contracts	(12,388 )	(6,097 )
Other current liabilities	6,051	798
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>8,367</b>	<b>8,493</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	368	956
Purchase of investments	(1,028 )	(1,874 )
Acquisition of property and equipment	(24,918 )	(20,898 )
Restricted cash	3,605	-
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(21,973 )</b>	<b>(21,816 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from debt	88,370	19,378
Proceeds from the sale of common stock	1,000	-
Repayments of debt	(62,013 )	(5,687 )
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>27,357</b>	<b>13,691</b>

Edgar Filing: Tecnoglass Inc. - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents	1,127	2,474
NET INCREASE IN CASH	14,878	2,842
CASH — Beginning of year	2,866	2,135
CASH — End of year	\$ 17,744	\$ 4,977

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest	\$ 4,031	\$ 5,239
Taxes	\$ -	\$ -

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Assets acquired under capital lease	\$ 3,152	\$ 9,875
Warrant exercise proceeds held by transfer agent	\$ 741	\$ -

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 \$14 million and \$12 million of unbilled receivables as of September 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 nine month period ended September 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 September 30, 2014 and December 31, 2013, the reserve for doubtful accounts was \$133 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 September 30, 2014 and December 31, 2013 amounted to \$1,367 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 (“IPO Warrants”), 4,800,000 warrants were issued in connection with the Private Placement (“Insider Warrants”), and 200,000 warrants were issued upon conversion of a promissory note at the closing of the Merger (“Working Capital Warrants”). The Company classifies the warrant 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 92,570 Warrants have been exercised as of September 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.

The following table sets forth the computation of the basic and diluted earnings per share for the nine months ended September 30, 2014 and 2013:

	September 30, 2014	September 30, 2013
Numerator for basic and diluted earnings per shares		
Net Income	6,986	8,899
Denominator		
Denominator for basic earnings per ordinary share – weighted average shares outstanding	24,306,288	20,567,141
Effect of dilutive warrants	3,454,980	-
	27,761,268	20,567,141

Denominator for diluted earnings per ordinary share – weighted average shares outstanding

Basic earnings per ordinary share	0.29	0.43
Diluted earnings per ordinary share	0.25	0.43

### ***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.

### ***Reclassifications***

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

### **Note 3. 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 September 30, 2014 and 2013 were \$ 17.4 million and \$7.7 million respectively, and for the nine month periods ended September 30, 2014 and 2013 were \$ 27.0 million and \$ 19.3 million, respectively. Outstanding receivables from ESW LLC at September 30, 2014 and December 31, 2013 were \$ 12.0 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 September 30, 2014 and 2013, and for the nine month periods ended September 30, 2014 and 2013 were less than \$0.1 million in all periods. Outstanding receivables from VS at September 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)**

Management 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 September 30, 2014 or as of December 31, 2013.

As of September 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:

Edgar Filing: Tecnoglass Inc. - Form 10-Q

	September 30, 2014	December 31, 2013
Raw materials	\$ 19,906	\$ 17,121
Work in process	2,057	3,243
Finished goods	2,658	2,741
Stores and spares	2,855	2,404
Packing material	167	110
	27,643	25,619
Less: inventory allowances	(1,367 )	(1,438 )
	\$ 26,276	\$ 24,181

**Note 5. Property, Plant and Equipment**

Property, plant and equipment consist of the following:

	September 30, 2014	December 31, 2013
Building	\$ 35,253	\$ 34,710
Machinery and equipment	80,107	61,539
Office equipment and software	3,205	3,221
Vehicles	1,444	1,193
Furniture and fixtures	1,909	1,888
Total property, plant and equipment	121,919	102,551
Accumulated depreciation and amortization	(38,769 )	(27,403 )
Net value of property and equipment	83,150	75,148
Land	19,470	12,234
Total property, plant and equipment, net	\$ 102,620	\$ 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 September 30, 2014 and 2013 was \$2,805 and \$1,982, respectively, and for the nine month periods ended September 30, 2014 and 2013 was \$ 7,777 and \$5,977 respectively.

The Company closed on its contract executed in 2013 for the purchase of land adjacent to the Company's current facilities for approximately \$7.5 million and, as of September 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:

	September 30, 2014	December 31, 2013
Obligations under borrowing arrangements	\$ 102,253	\$ 77,817
Less: Current portion of long-term debt and other current borrowings	56,567	29,720
Long-term debt	\$ 45,686	\$ 48,097

At September 30, 2014, the Company owed approximately \$102,253 under its various borrowing arrangements with several banks in Colombia and Panama including obligations under various capital leases as discussed below. The bank obligations have maturities ranging from nine months to 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 September 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 September 30, 2014, the April 2014 confirmation by Colpatría continues in force with no change to the bank's statements expressed therein.

The Company has approximately \$1.0 million available in two lines of credit under a revolving note arrangement as of September 30, 2014. The Revolving Notes expired and were renewed on April 3, 2014. The floating interest rates on the revolving notes are between DTF+2% and DTF+6.5%. DTF is the primary measure of interest rates in Colombia. The note is secured by all assets of the Company. At September 30, 2014 and December 31, 2013, \$1,490 and \$1,872 was outstanding under these lines, respectively.

Interest expense for the three month periods ended September 30, 2014 and 2013 was \$ 2.4 million and \$ 1.9 million, respectively, and for the nine month periods ended September 30, 2014 and 2013 was \$6.6 million and \$ 5.4 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Current income tax				
Foreign	2,086	2,044	6,652	4,088
Deferred income tax				
Foreign	(316 )	(492 )	352	814
Total Provision for Income tax	\$ 1,770	1,552	7,004	4,902

The Company's effective tax rates of 14% and 50% for the three and nine month periods ended September 30, 2014 reflect non-deductible income (losses) of \$6,756 and (\$6,769), 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 September 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 September 30, 2014):

	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant Liability	-	-	25,049
Interest Rate Swap Derivative Liability	-	189	-

**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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Colombia	22,353	24,378	65,105	72,711
United States	26,812	17,704	74,720	45,624
Panama	2,649	2,099	10,482	7,588
Other	1,639	1,320	2,923	3,539
Total Revenues	\$ 53,453	\$ 45,501	153,230	129,462

**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:

	September 30, 2014	December 31, 2013
Stock Price	\$ 10.95	\$ 8.55

Edgar Filing: Tecnoglass Inc. - Form 10-Q

Dividend Yield	N/A		N/A	
Risk-free rate	0.58	%	0.78	%
Expected Term	2.22		2.97	
Expected Volatility	35.59	%	44.69	%

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

Balance - December 31, 2013	\$ 18,280
Fair value adjustment for nine months ended September 30, 2014	6,769
Balance at September 30, 2014	\$ 25,049

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

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

	At September 30, 2014	At December 31, 2013
<u>Assets</u>		
Due from ESW LLC	\$ 12,052	\$ 11,823
Due from VS	605	2,690
Due from UT ESW	3,242	3,199
Due from other related parties	4,605	1,346
	\$ 20,504	\$ 19,058
<u>Liabilities</u>		
Due to A Construir S.A.	\$ (154	) \$ (2,314
Due to UT SB	(1,939	) (1,287
Due to Construseñales S.A.	-	(3,633
Due to other related parties	(351	) (1,163
	\$ (2,444	) \$ (8,397
Three months ended September 30, 2014	2013	Nine months ended September 30, 2014
		2013

Edgar Filing: Tecnoglass Inc. - Form 10-Q

Revenues

Sales to ESW LLC	17,385	7,713	27,023	19,356
Sales to VS	108	57	165	96
Sales to UT ESW	96	773	145	7,290
	17,589	8,543	27,333	26,742

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

Expenses

Fees paid to directors and officers	286	231	907	653
Payments to other related parties*	237	406	1,399	1,073

\*Payments to other related parties in 2013 and 2014 consists of donations to Fundación Tecnoglass.

**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 September 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. As of September 30, 2014, 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 the Company could receive up to \$40.0 million upon the exercise of all of the insider warrants and working capital warrants, up to \$9.4 million upon the exercise of the unit purchase options, up to \$7.2 million upon the exercise of the warrants underlying such unit purchase options and up to \$33.6 million upon the exercise of the warrants issued in the Public Offering. Any amounts received from such exercises will be used for working capital and other general corporate purposes.

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 92,570 warrants have been exercised for proceeds of \$ 741 as of September 30, 2014. As of the latest practicable date before these condensed unaudited consolidated financial statements were available for publication, a total of 102,570 warrants had been exercised for Company ordinary shares through October 31, 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 September 30, 2014 and December 31, 2013.

#### **Note 14. Derivative Financial Instruments**

The Company has entered into three interest rate swap (IRS) contracts as economic hedges against interest rate risk on its peso loans through 2017. Hedge accounting treatment per guidance in ASC 815-10 and related Subsections was not pursued at inception of the contracts. The derivative contracts are recorded on the balance sheet as liabilities as of September 30, 2014 at an aggregate fair value of \$189. 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 September 30<sup>th</sup>, 2014, the guarantee was released and no liabilities are recorded after the funds repaid to the bank on April 1, 2014.



**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. On October 1, 2014 the case was finally settled. The plaintiffs accepted \$1,075, with a payment time of 60 days. The Company's insurance policy will cover 90% of the loss and the company recorded a liability of \$108 as a subsequent event.

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 event that occurred subsequent to September 30, 2014 and through the date the financial statements were available to be issued, that no additional subsequent events required disclosure other than those disclosed in these financial statements and Note 15 – Commitments and Contingencies.

## **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 more than 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 country. 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 freelance 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 agreements with sales representatives.

### **Liquidity**

As of September 30, 2014 and December 31, 2013, the Company had cash and cash equivalents of approximately \$17.7 million and \$2.9 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 September 30, 2014, following the Company's registration statement becoming effective on June 16, 2014, 92,570 warrants have been exercised for proceeds of \$0.7 million.

**Capital Resources**

The Company transforms glass and aluminum into high specification architectural glass which requires significant investments in state of the art technology. In the nine month period ended September 30, 2014, the Company made investments primarily in building and construction, and machinery and equipment in the amount of \$24.9 million, compared to \$20.9 million in the first nine months of 2013. In August, the Company executed a contract for approximately \$33 million to purchase Magnetron Sputtered Vacuum Deposition equipment to produce soft coated low emissivity glass as part of its capital improvements plan in 2015 and 2016.

Results of Operations	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Sales	\$ 53,453	\$ 45,501	\$ 153,230	\$ 129,462
Gross margin	16,445	14,317	47,690	39,589
Operating expenses, net	8,795	8,219	23,764	22,690
Operating income	7,650	6,098	23,926	16,899
Non-operating revenues, net	1,003	536	3,480	2,277
Interest Expense	2,380	1,888	6,647	5,375
Change in fair value of warrant liability	6,756	-	(6,769 )	-
Income tax provision	1,770	1,552	7,004	4,902
Net income	\$ 11,259	\$ 3,194	\$ 6,986	\$ 8,899

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

The Company's net operating revenues increased \$8.0 million or 17.5% from \$45.5 million to \$53.5 million for the quarterly period ended September 30, 2014 compared the quarterly period ended September 30, 2013.

Growth was mostly driven by sales in the U.S. market which increased \$9.1 million or 51.4% in the quarterly period ended September 30, 2014 when compared to the quarterly period ended September 30, 2013. The Company continued its expansion of sales outside of its traditional base in the South Florida region with 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. The Company announced that it has been awarded a number of contracts from one of the largest real estate development firms in the United States to manufacture and supply windows for 10 multi-dwelling residential buildings to be constructed in South Florida. The contracts have a total value to the Company of approximately \$40 million. Sales in the Colombian market, with a

significant participation of long-term contracts priced in local currency, presented a \$2.0 million decrease or 8.3% for the nine months ended September 30, 2014 compared to the same period of 2013. Difference in exchange rate contributed to 2 percentage points of the decrease resulting from translating the financial statements to the U.S. Dollar for reporting purposes. Sales to Panama and other territories in the Americas grew by less than \$1.0 million.

### **Margins**

Sales margins decreased to 30.8% from 31.5% in the quarterly periods ended September 30, 2014 and 2013. Margins for the three months ended September 30, 2014 remain relatively stable within the normal variation of the Company's operations between quarterly periods as a result of a varying product mix.

### **Expenses**

Selling and Administrative Expenses increased 7% from \$8.2 million to \$8.8 million in the quarterly period ended September 30, 2014 when compared to the quarterly period ended September 30, 2013. The increase was a result of increases in personnel costs driven by the growth in the Company's operations, significant expenses resulting from the Company becoming publicly traded, offset by decreases in sales commissions resulting from new sales arrangements in key markets.

### **Interest Expense**

During the three month periods ended September 30, 2013 and 2014, interest expense increased by \$0.5 million, or approximately 26.1%, from \$1.8 million to \$2.4 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**

Non-cash, non-operating revenue of \$6.8 million arose from the decrease in the fair value of the warrant liability in the quarterly period ended September 30, 2014 relative to its fair value at the end of the previous quarter ended June 30, 2014. There was no comparable warrant liability at September 30, 2013 as this derivative obligation was included in the results of operations of the Company since the date of the merger on December 20, 2013 and thereafter. 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 nine months ended September 30, 2014 and 2013**

#### **Revenues**

The Company's net operating revenues increased \$23.8 million or 18.4% from \$129.5 million to \$153.2 million for the nine months ended September 30, 2014 compared to the same period ended September 30, 2013.

Growth was mostly driven by sales in the U.S. market which increased \$29.1 million or 63.7% in the nine months ended September 30, 2014 when compared to the nine month period ended September 30, 2013. The Company continued its expansion of sales outside of its traditional base in the South Florida region with 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 \$5.3 million decrease or 7.34% for the nine months ended September 30, 2014 compared to the same period of 2013. In terms of local currency, sales in Colombia decreased 5.4%, or 3.7 million when converted at the 2014 average foreign exchange rate, augmented by a decline in the exchange rates used for translating sales in Colombian pesos, the Company's functional currency, into U.S. dollars, the reporting currency. Sales to Panama grew by \$2.3 million, or 38.1% from the first nine months of 2013 to the first nine months of 2014.

#### **Margins**

Sales margins increased from 30.6% to 31.1% in the nine month period ended September 30, 2013 and 2014. The Company believes the moderate 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 nine month periods ended September 30, 2013 and 2014, general selling and administrative increased 4.7%, or \$1.1 million. 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**

During the nine month periods ended September 30, 2013 and 2014, interest expense increased by \$1.2 million, about 23.7% from \$5.4 million to \$6.6 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 \$6.8 million arose from the increase in the fair value of the warrant liability in the nine month period ended September 30, 2014. There was no comparable warrant liability at September 30, 2013 as this derivative obligation was included in the results of operations of the Company as of 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 nine month periods ended September 30, 2014 and 2013, \$8.4 million and \$8.5 million, respectively, were provided by operating activities. The principal use of cash was a decrease in advances from customers on incomplete contracts as the Company's sales shift away from contract sales toward more standard sales – predominant in the Company's highest growth market, the United States.

Cash generated from financing activities was \$27.4 million and \$13.7 million during the nine month periods ended September 30, 2014 and 2013, respectively, primarily resulting from proceeds from bank loans and credit lines used to finance capital expenditures. During the nine months ended September 30, 2014, the Company made capital expenditures for \$24.9 million, mainly in the purchase of land adjacent to the Company's current facilities as part of the plan to continue to grow operation and the purchase of an aluminum press to increase production capacity of the Alutions division of TG.

	Nine months ended	
	September 30, 2014	September 30, 2013
Cash Flow from Operating Activities	\$8,367	8,493
Cash Flow from Investing Activities	(21,973)	(21,816 )
Cash Flow from Financing Activities	27,357	13,691
Effect of exchange Rates on Cash and Cash Equivalents	1,127	2,474
Cash Balance - Beginning of Period	2,866	2,135
Cash Balance - End of Period	\$17,744	4,977

**Off-Balance Sheet Arrangements**

**None**

20

### **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 September 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.

On October 1, 2014 the case was finally settled. The plaintiffs accepted \$1,075, with a payment time of 60 days. The Company's insurance policy will cover 90% of the loss and the company recorded a liability of \$108 as a subsequent event.

Tecnoglass S.A. is also a named defendant in in the matter of Diplomat Properties, Limited Partnership as assignee of Shower Concepts, Inc. v. Tecnoglass Colombia, S.A. in the 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 tort feisor, 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 September 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: November 7, 2014