

Tecnoglass Inc.  
Form 10-Q  
August 11, 2017

**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, 2017**

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

**For the transition period from to**

**Commission file number: 001-35436**

**TECNOGLASS INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

**Cayman Islands**

**98-1271120**

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(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)

**N/A**

(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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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)

Emerging growth company ☒

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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: 33,829,825 ordinary shares as of June 30, 2017.

**TECNOGLASS INC.**

**FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2017**

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

|                                                               | June 30,<br>2017 | December<br>31, 2016 |
|---------------------------------------------------------------|------------------|----------------------|
| <b>ASSETS</b>                                                 |                  |                      |
| Current assets:                                               |                  |                      |
| Cash and cash equivalents                                     | \$43,682         | \$26,918             |
| Investments                                                   | 1,879            | 1,537                |
| Trade accounts receivable, net                                | 106,313          | 92,297               |
| Due from related parties                                      | 8,531            | 10,995               |
| Inventories                                                   | 61,128           | 55,092               |
| Other current assets                                          | 15,405           | 23,897               |
| Total current assets                                          | \$236,938        | \$210,736            |
| Long term assets:                                             |                  |                      |
| Property, plant and equipment, net                            | \$165,123        | \$170,797            |
| Deferred taxes                                                | 3,697            | -                    |
| Intangible assets                                             | 12,548           | 4,555                |
| Goodwill                                                      | 19,899           | 1,330                |
| Other long-term assets                                        | 7,528            | 7,312                |
| Total long-term assets                                        | 208,795          | 183,994              |
| Total assets                                                  | \$445,733        | \$394,730            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                   |                  |                      |
| Current liabilities:                                          |                  |                      |
| Short-term debt and current portion of long term debt         | \$5,466          | \$2,651              |
| Trade accounts payable and accrued expenses                   | 52,392           | 42,546               |
| Due to related parties                                        | 1,435            | 3,668                |
| Payable associated to GM&P acquisition                        | 29,000           | -                    |
| Dividends payable                                             | 1,526            | 3,486                |
| Current portion of customer advances on uncompleted contracts | 8,880            | 7,780                |
| Other current liabilities                                     | 6,341            | 18,255               |

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|                                                                                                                                                                                  |            |            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Total current liabilities                                                                                                                                                        | \$ 105,040 | \$ 78,386  |
| Long term liabilities:                                                                                                                                                           |            |            |
| Deferred income taxes                                                                                                                                                            | \$ 3,347   | \$ 3,523   |
| Customer advances on uncompleted contracts                                                                                                                                       | 3,359      | 2,310      |
| Long term debt                                                                                                                                                                   | 221,456    | 196,946    |
| Total Long-Term Liabilities                                                                                                                                                      | 228,162    | 202,779    |
| Total liabilities                                                                                                                                                                | \$ 333,202 | \$ 281,165 |
| COMMITMENTS AND CONTINGENCIES                                                                                                                                                    |            |            |
| SHAREHOLDERS' EQUITY                                                                                                                                                             |            |            |
| Preferred shares, \$0.0001 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2017 and December 31, 2016 respectively                           | \$-        | \$-        |
| Ordinary shares, \$0.0001 par value, 100,000,000 shares authorized, 33,829,825 and 33,172,144 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively | 3          | 3          |
| Legal Reserves                                                                                                                                                                   | 1,367      | 1,367      |
| Additional paid-in capital                                                                                                                                                       | 120,500    | 114,847    |
| Retained earnings                                                                                                                                                                | 19,097     | 26,548     |
| Accumulated other comprehensive (loss)                                                                                                                                           | (29,649 )  | (29,200 )  |
| Shareholders' equity attributable to controlling interest                                                                                                                        | 111,318    | 113,565    |
| Shareholders' equity attributable to non-controlling interest                                                                                                                    | 1,213      | -          |
| Total shareholders' equity                                                                                                                                                       | 112,531    | 113,565    |
| Total liabilities and shareholders' equity                                                                                                                                       | \$ 445,733 | \$ 394,730 |

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

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

(In thousands, except share and per share data)

(Unaudited)

|                                                                 | <b>Three months ended June 30,</b> |                  | <b>Six months ended June 30,</b> |                  |
|-----------------------------------------------------------------|------------------------------------|------------------|----------------------------------|------------------|
|                                                                 | <b>2017</b>                        | <b>2016</b>      | <b>2017</b>                      | <b>2016</b>      |
| Operating revenues:                                             |                                    |                  |                                  |                  |
| External customers                                              | \$79,885                           | \$78,353         | \$144,328                        | \$139,237        |
| Related parties                                                 | 1,091                              | 1,460            | 2,465                            | 4,431            |
| Total operating revenues                                        | 80,976                             | 79,813           | 146,793                          | 143,668          |
| Cost of sales                                                   | 58,432                             | 51,823           | 101,997                          | 90,988           |
| <b>Gross Profit</b>                                             | <b>22,544</b>                      | <b>27,990</b>    | <b>44,796</b>                    | <b>52,680</b>    |
| Operating expenses:                                             |                                    |                  |                                  |                  |
| Selling expense                                                 | (7,894)                            | (9,094)          | (14,800)                         | (15,296)         |
| General and administrative expense                              | (7,600)                            | (6,163)          | (15,101)                         | (12,903)         |
| Provision for bad debt and write offs                           | (1,634)                            | (5)              | (2,617)                          | (5)              |
| Total Operating Expenses                                        | (17,128)                           | (15,262)         | (32,518)                         | (28,204)         |
| <b>Operating income</b>                                         | <b>5,416</b>                       | <b>12,728</b>    | <b>12,278</b>                    | <b>24,476</b>    |
| Gain on change in fair value of earnout shares liabilities      | -                                  | 3,330            | -                                | 7,034            |
| Gain on change in fair value of warrant liability               | -                                  | 6,687            | -                                | 12,598           |
| Non-operating income                                            | 922                                | 1,246            | 1,949                            | 2,263            |
| Foreign currency transactions losses                            | (8,713)                            | (1,009)          | (6,288)                          | (2,266)          |
| Loss on extinguishment of Debt                                  | (2)                                | -                | (3,161)                          | -                |
| Interest expense and amortization of deferred cost of financing | (5,175)                            | (4,242)          | (10,257)                         | (7,366)          |
| (Loss) Income before taxes                                      | (7,552)                            | 18,740           | (5,479)                          | 36,739           |
| Income tax benefit (provision)                                  | 4,052                              | (4,061)          | 3,010                            | (7,704)          |
| Net (loss) income                                               | (3,500)                            | 14,679           | (2,469)                          | 29,035           |
| Less: Net income attributable to non-controlling interest       | 60                                 | -                | 72                               | -                |
| <b>Net (loss) income attributable to parent</b>                 | <b>\$ (3,560)</b>                  | <b>\$ 14,679</b> | <b>\$ (2,541)</b>                | <b>\$ 29,035</b> |
| Comprehensive income:                                           |                                    |                  |                                  |                  |
| Net (loss) income attributable to parent                        | \$ (3,560)                         | \$ 14,679        | \$ (2,541)                       | \$ 29,035        |

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|                                                    |                  |          |                  |                  |          |                  |
|----------------------------------------------------|------------------|----------|------------------|------------------|----------|------------------|
| Foreign currency translation adjustments           | (5,250           | )        | 3,489            | (449             | )        | 5,231            |
| <b>Total comprehensive (loss) income</b>           | <b>\$ (8,810</b> | <b>)</b> | <b>\$ 18,168</b> | <b>\$ (2,990</b> | <b>)</b> | <b>\$ 34,266</b> |
| Basic income (loss) per share                      | \$ (0.11         | )        | \$ 0.51          | \$ (0.08         | )        | \$ 1.01          |
| Diluted income (loss) per share                    | \$ (0.11         | )        | \$ 0.44          | \$ (0.08         | )        | \$ 0.87          |
| Basic weighted average common shares outstanding   | 33,829,825       |          | 28,890,001       | 33,826,070       |          | 28,727,268       |
| Diluted weighted average common shares outstanding | 33,829,825       |          | 33,214,541       | 33,826,070       |          | 33,226,988       |

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)**

**Six months ended  
June 30,  
2017                  2016**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|                                                                                             |               |                 |
|---------------------------------------------------------------------------------------------|---------------|-----------------|
| Net (loss) income attributable to parent                                                    | \$ (2,541 )   | \$ 29,035       |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |               |                 |
| Provision for bad debts                                                                     | 2,617         | 5               |
| Provision for obsolete inventory                                                            | 58            | -               |
| Depreciation and amortization                                                               | 10,366        | 7,068           |
| Change in fair value of investments held for trading                                        | (6 )          | (27 )           |
| Loss on disposition of assets                                                               | 3             | -               |
| Change in value of derivative liability                                                     | (23 )         | (19 )           |
| Change in fair value of earnout share liability                                             | -             | (7,034 )        |
| Change in fair value of warrant liability                                                   | -             | (12,598 )       |
| Deferred income taxes                                                                       | (6,870 )      | 42              |
| Extinguishment of debt                                                                      | 2,585         | -               |
| Amortization of bond discount and issuance costs                                            | 545           | -               |
| Director stock compensation                                                                 | 142           | 166             |
| <b>Changes in operating assets and liabilities:</b>                                         |               |                 |
| Trade accounts receivables                                                                  | 5,830         | (13,455 )       |
| Inventories                                                                                 | (6,811 )      | (7,624 )        |
| Prepaid expenses                                                                            | 83            | 950             |
| Other assets                                                                                | 1,984         | (6,030 )        |
| Trade accounts payable and accrued expenses                                                 | 15,399        | 16,795          |
| Taxes payable                                                                               | (15,104 )     | (5,423 )        |
| Labor liabilities                                                                           | (130 )        | (4 )            |
| Related parties                                                                             | 1,784         | (4,839 )        |
| Customer advances on uncompleted contracts                                                  | 2,283         | 373             |
| <b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>                                      | <b>12,194</b> | <b>(2,619 )</b> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|                                              |          |           |
|----------------------------------------------|----------|-----------|
| Proceeds from sale of investments            | 358      | 417       |
| Proceeds from sale of property and equipment | -        | -         |
| Business acquisitions                        | (8,382 ) | -         |
| Cash acquired from GM&P and Componenti       | 509      | -         |
| Purchase of investments                      | (727 )   | (22,765 ) |
| Acquisition of property and equipment        | (4,295 ) | (5,113 )  |

|                                                              |           |           |
|--------------------------------------------------------------|-----------|-----------|
| <b>CASH USED IN INVESTING ACTIVITIES</b>                     | (12,537 ) | (27,461 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                  |           |           |
| Proceeds from debt                                           | 20,915    | 156,200   |
| Cash Dividend                                                | (1,219 )  | -         |
| Proceeds from bond issuance                                  | 201,716   | -         |
| ESW distributions prior to acquisition                       | -         | (1,201 )  |
| Repayments of debt                                           | (203,754) | (110,131) |
| <b>CASH PROVIDED BY FINANCING ACTIVITIES</b>                 | 17,658    | 44,868    |
| Effect of exchange rate changes on cash and cash equivalents | (551 )    | (334 )    |
| <b>NET (DECREASE) INCREASE IN CASH</b>                       | 16,764    | 14,454    |
| CASH - Beginning of period                                   | 26,918    | 22,671    |
| CASH - End of period                                         | 43,682    | 37,125    |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>     |           |           |
| Cash paid during the period for:                             |           |           |
| Interest                                                     | 6,864     | 4,063     |
| Income Tax                                                   | 15,168    | 13,677    |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>          |           |           |
| Assets acquired under capital lease                          | -         | 11,438    |

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

**Tecnoglass Inc. and Subsidiaries****Condensed Consolidated Statements of Shareholders' Equity**

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

(Unaudited)

|                                    | Ordinary Shares,<br>\$0.0001<br>Par Value | Additional<br>Paid in<br>Capital | Legal<br>Reserve | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Shareholders'<br>Equity<br>Attributable<br>to Parent | Non-controlling<br>Interest | Total<br>Shareholders'<br>Equity |          |
|------------------------------------|-------------------------------------------|----------------------------------|------------------|--------------------------------------------------|-----------------------------------------------|---------------------------------------------------------------|-----------------------------|----------------------------------|----------|
| Balance at<br>December 31,<br>2016 | 33,172,144                                | 3                                | 114,847          | 1,367                                            | 26,548                                        | (29,200 )                                                     | 113,565                     | -                                | 113,565  |
| Dividends                          | 657,681                                   | -                                | 5,645            | -                                                | (4,910 )                                      | -                                                             | 735                         | -                                | 735      |
| Share based<br>compensation        | -                                         | -                                | 8                | -                                                | -                                             | -                                                             | 8                           | -                                | 8        |
| Non-controlling<br>interest        | -                                         | -                                | -                | -                                                | -                                             | -                                                             | 1,141                       | -                                | 1141     |
| Foreign currency<br>translation    | -                                         | -                                | -                | -                                                | -                                             | (449 )                                                        | (449 )                      | -                                | (449 )   |
| Net Income                         | -                                         | -                                | -                | -                                                | (2,541 )                                      | -                                                             | (2,541 )                    | 72                               | (2,469 ) |
| Balance at June 30,<br>2017        | 33,829,825                                | 3                                | 120,500          | 1,367                                            | 19,097                                        | (29,649 )                                                     | 111,318                     | 1,213                            | 112,531  |

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)**

#### **Note 1. General**

##### ***Business Description***

Tecnoglass Inc. (“TGI,” the “Company,” “we,” “us” or “our”) was incorporated in the Cayman Islands on September 21, 2011 under the name “Andina Acquisition Corporation” (“Andina”) as a blank check company. Andina’s registration statement for its initial public offering (the “Public Offering”) was declared effective on March 16, 2012. Andina consummated the Public Offering, the private placement of warrants (“Private Placement”) and the sale of options to the Underwriters on March 22, 2012, receiving proceeds, net of transaction costs, of \$43,163, of which \$42,740 was placed in a trust account.

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

The Company manufactures hi-specification, architectural glass and windows for the global residential and commercial construction industries. Currently the Company offers design, production, marketing, and installation of architectural systems for buildings of high, medium and low elevation size. Products include windows and doors in glass and aluminum, office partitions and interior divisions, floating façades and commercial window showcases. The Company sells to customers in North, Central and South America, and exports about half of its production to foreign countries. On March 29, 2017, we established ESWindows Europe SRL, a subsidiary based in Italy out of which we expect expand our sales to European and Middle Eastern markets.

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

products.

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

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

In December 2016, as part of our strategy to vertically integrate our operations, we acquired 100% of the stock of ESW LLC, 85.06% of which was acquired directly by Tecnoglass and 14.94% by our subsidiary ES, for a total purchase price of \$13,500, which consisted of (i) 734,400 ordinary shares issued in connection with the transaction for approximately \$9,200 based on a stock price of \$12.50, (ii) approximately \$2,300 in cash, and (iii) approximately \$2,000 related to the assignment of certain accounts receivable. The acquisition was deemed to be a transaction between entities under common control, which, under applicable accounting guidelines, requires the assets and liabilities to be transferred at historical cost of the entity, with prior periods retroactively adjusted to furnish comparative information.

On March 1, 2017, the Company acquired Giovanni Monti and Partners Consulting and Glazing Contractors, Inc. (“GM&P”), a Florida-based commercial consulting, glazing and engineering company, specializing in windows and doors for commercial contractors, including its 60% owned subsidiary, Componenti USA LLC. The purchase price for the acquisition was \$35,000 of which \$6,000 of the purchase price was paid in cash by the Company with the remaining amount to be payable by the Company in cash, stock of the Company or a combination of both at the Company’s sole discretion within 180 days after closing. For more information on this acquisition, please refer to Note 3. Acquisitions.

## **Note 2. Basis of Presentation and Summary of Significant Accounting Policies**

### **Basis of Presentation and Use of Estimates**

The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting purposes. The results reported in these unaudited condensed consolidated financial statements are not necessarily indicative of results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the information contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP.

Prior year financial information has been retroactively adjusted for an acquisition under common control. As the acquisition of ESW LLC was deemed to be a transaction between entities under common control, the assets and liabilities were transferred at the historical cost of ESW LLC, with prior periods retroactively adjusted to include the historical financial results of the acquired company for the period they were controlled by ESW LLC in the Company’s financial statements. The accompanying financial statements and related notes have been retroactively adjusted to include the historical results and financial position of the acquired company prior to the acquisition date during the periods the assets were under common control. All financial information presented for the periods after the ESW LLC acquisition represent the consolidated results of operations, financial position and cash flows of the Company with retroactive adjustments of the results of operations, financial position and cash flows of the acquired company during the periods the assets were under common control.

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 and conditions. Estimates inherent in the preparation of these condensed consolidated financial statements relate to the collectability of account receivables, the valuation of inventories, estimated earnings on uncompleted contracts, useful lives and potential impairment of long-lived assets.

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 financial statements reflect all adjustments that in the opinion of management are necessary for a fair statement of the financial position, results of operations and cash flows for the period presented, and are of a normal, recurring nature.

### **Principles of Consolidation**

These unaudited condensed consolidated financial statements consolidate TGI, its subsidiaries TG, ES, ESW LLC, ESW Europe SRL, Tecno LLC, Tecno RE, GM&P and Componenti USA LLC, which are entities in which we have a controlling financial interest because we hold a majority voting interest. To determine if we hold a controlling financial interest in an entity, we first evaluate if we are required to apply the variable interest entity (“VIE”) model to the entity, otherwise the entity is evaluated under the voting interest model. All significant intercompany accounts and transactions are eliminated in consolidation, including unrealized intercompany profits and losses.

### **Non-controlling interest**

When the company owns a majority (but less than 100%) of a subsidiary's stock, the company include in its condensed consolidated Financial Statements the non-controlling interest in the subsidiary. The non-controlling interest in the Condensed Consolidated Statements of Operations and Other Comprehensive Income is equal to the non-controlling proportionate share of the subsidiary's net income and, as included in Shareholders' Equity on the Consolidated Balance Sheet, is equal to the non-controlling proportionate share of the subsidiary's net assets.

### **Foreign Currency Translation**

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

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

### **Business combinations**

We allocate the total purchase price of the acquired tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the business combination date, with the excess purchase price recorded as goodwill. The purchase price allocation process required us to use significant estimates and assumptions, including fair value estimates, as of the business combination date. Although we believe the assumptions and estimates we have made are reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired company, in part based on valuation models that incorporate projections of expected future cash flows and operating plans and are inherently uncertain. Valuations are performed by management or third-party valuation specialists under management's supervision. In determining the fair value of assets acquired and liabilities assumed in business combinations, as appropriate, we may use one of the following recognized valuation methods: the income approach (including the cost saving method and the discounted cash flows from relief from royalty), the market approach and/or the replacement cost approach.



Examples of significant estimates used to value certain intangible assets acquired include but are not limited to:

sales volume, pricing and future cash flows of the business overall

future expected cash flows from customer relationships, and other identifiable intangible assets, including future price levels, rates of increase in revenue and appropriate attrition rate

the acquired company's brand and competitive position, royalty rate, as well as assumptions about the period of time the acquired brand will continue to benefit to the combined company's product portfolio

cost of capital, risk-adjusted discount rates and income tax rates

However, different assumptions regarding projected performance and other factors associated with the acquired assets may affect the amount recorded under each type of assets and liabilities, mainly between property, plant and equipment, intangibles assets, goodwill and deferred income tax liabilities and subsequent assessment could result in future impairment charges. The purchase price allocation process also entails us to refine these estimates over a measurement period not to exceed one year to reflect new information obtained surrounding facts and circumstances existing at acquisition date.

Acquisitions under common control are recorded retroactively starting from the first date of common control. Instead of using fair value, the Company consolidates the financial statements of the entity acquired using the existing carrying values.

## Revenue Recognition

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

Revenues from fixed price contracts 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 from fixed price contracts amount to 50% and 43% of the Company's sales for the three and six months ended June 30, 2017, respectively, and 15% and 16% for the three and six months ended June 30, 2016, respectively, as GM&P, acquired in March of 2017 largely accounts for its revenues through the percentage of completion method. Revenues recognized in advance of amounts billable pursuant to contracts terms are recorded as unbilled receivables on uncompleted contracts based on work performed and costs to date. Unbilled receivables on uncompleted contracts are billable upon various events, including the attainment of performance milestones, delivery and installation of products, or completion of the contract. Revisions to cost estimates as contracts progress have the effect of increasing or decreasing expected profits each period. Changes in contract estimates occur for a variety of reasons, including changes in contract scope, estimated revenue and estimated costs to complete. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in contract performance and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined and have not had a material effect on the Company's financial statements.

## Property, Plant and Equipment

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

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

Vehicles

5 years

10

## Intangible Assets

Intangible assets with definite lives subject to amortization are amortized on a straight-line basis. We also review these intangibles for impairment when events or significant changes in circumstance indicate that the carrying value may not be recoverable. Events or circumstances that indicate that impairment testing may be required include the loss of a significant customer, loss of key personnel or a significant adverse change in business climate or regulations. There were no triggering events or circumstances noted and as such no impairment was needed for the intangible assets subject to amortization. See Note 9 - Goodwill and Intangible Assets for additional information.

## Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of ordinary shares outstanding during the period. Income per share assuming dilution (diluted earnings per share) would give effect to dilutive options, warrants, earnout shares, and other potential ordinary shares outstanding during the period. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

The calculation of diluted earnings per share for the three and six months ended June 30, 2017 excludes the effect of 814,341 dilutive securities related to the dividend declared as there is a net loss for the period and their inclusion would be anti-dilutive. For the three and six months ended June 30, 2016, the Company considered the dilutive effect of warrants to purchase ordinary shares, unit purchase options exercisable into ordinary shares, and shares issuable under the earnout agreement, and share dividends paid out since, which are retroactively adjusted, in the calculation of diluted income per share, which resulted in 4,324,540 and 4,499,720 shares of dilutive securities, respectively.

The following table sets forth the computation of the basic and diluted earnings per share for the three and six months ended June 30, 2017 and 2016:

|                                          | Three months ended June 30, |            | Six months ended June 30, |            |
|------------------------------------------|-----------------------------|------------|---------------------------|------------|
|                                          | 2017                        | 2016       | 2017                      | 2016       |
| Net (loss) income attributable to parent | \$(3,560                    | ) \$14,679 | \$(2,541                  | ) \$29,035 |
| <b>Denominator</b>                       |                             |            |                           |            |
|                                          | 33,829,825                  | 28,890,001 | 33,826,070                | 28,727,268 |

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|                                                                                           |            |            |            |            |
|-------------------------------------------------------------------------------------------|------------|------------|------------|------------|
| Denominator for basic earnings per ordinary share - weighted average shares outstanding   |            |            |            |            |
| Effect of dilutive warrants and earnout shares                                            | -          | 4,324,540  | -          | 4,499,720  |
| Denominator for diluted earnings per ordinary share - weighted average shares outstanding | 33,829,825 | 33,214,541 | 33,826,070 | 33,226,988 |
| Basic earnings per ordinary share                                                         | \$(0.11    | ) \$0.51   | \$(0.08    | ) \$1.01   |
| Diluted earnings per ordinary share                                                       | \$(0.11    | ) \$0.44   | \$(0.08    | ) \$0.87   |

### **Shipping and Handling Costs**

The Company classifies amounts billed to customers related to shipping and handling as product revenues. The Company records and presents shipping and handling costs in selling expenses. Shipping and handling costs for the six months ended June 30, 2017 and 2016 were \$6,189 and \$7,451, respectively, and for the three months ended June 30, 2017 and 2016 were \$3,057 and \$4,302, respectively.

### **Dividends Payable**

The company accounts for its dividend declared as a liability under ASC 480 - Distinguishing Liabilities from Equity since the shareholder have the option to elect cash or stock, and reclassifies from dividend payable to additional paid-in capital for the stock dividend elections. The dividend payable is not subject to re-measurement at each balance sheet date since the dividend is a fixed monetary amount known at inception and thus no change in fair value adjustment is necessary.

### **Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02 “Leases (Topic 842)” (“ASU 2016-02”). The FASB issued ASU 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-to-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. ASU 2016-02 retains a distinction between finance leases (i.e. capital leases under current GAAP) and operating leases. The classification criteria for distinguishing between finance leases and operating leases will be substantially similar to the classification criteria for distinguishing between capital leases and operating leases under current GAAP. The amendments of this ASU are effective for reporting periods beginning after December 15, 2018, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In May 2016, the FASB also issued ASU 2016-12, Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”), which provides clarification on certain topics within ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), including assessing collectability, presentation of sales taxes, the measurement date for non-cash consideration and completed contracts at transition, as well as providing a practical expedient for contract modifications at transition. The effective date and transition

requirements for the amendments in ASU 2016-08, ASU 2016-10 and ASU 2016-12 are the same as the effective date and transition requirements of ASU 2014-09, which is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. 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, 2017 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). The Company has completed the planning phase of the adoption of this ASU and is currently analyzing its contracts with customers and evaluating the potential effect of this ASU on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 reduces diversity in practice by providing guidance on the classification of certain cash receipts and payments in the statement of cash flows. ASU 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. ASU 2016-15 is effective on a retrospective basis for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

On October 24, 2016, the FASB issued Accounting Standards Update 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. The ASU is part of the Board's simplification initiative aimed at reducing complexity in accounting standards. Under current GAAP, the tax effects of intra-entity asset transfers (intercompany sales) are deferred until the transferred asset is sold to a third party or otherwise recovered through use. This is an exception to the principle in ASC 740, Income Taxes, that generally requires comprehensive recognition of current and deferred income taxes. The new guidance eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer. The new guidance does not apply to intra-entity transfers of inventory. The income tax consequences from the sale of inventory from one member of a consolidated entity to another will continue to be deferred until the inventory is sold to a third party. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Restricted Cash" ("ASU 2016-18"). ASU 2016-18 provides amendments to ASC No. 230, "Statement of Cash Flows," which require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. The amendments in this update are effective retrospectively during interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In December 2016, the FASB issued Accounting Standards Update 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, ("ASU 2016-20"). The purpose of ASU 2016-20 is to amend certain narrow aspects of the guidance issued in ASU 2014-09 including guidance related to the disclosure of remaining performance obligations and prior-period performance obligations, as well as other amendments to the guidance on loan guarantee fees, contract costs, refund liabilities, advertising costs and the clarification of certain examples. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business" ("ASU 2017-01"). ASU 2017-01 provides amendments to ASC No. 805, "Business Combinations," which clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this update are effective prospectively during interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 provides amendments to ASC No. 350, "Intangibles - Goodwill and Other" ("ASC 350"), which eliminate Step 2 from the goodwill impairment test. Entities should perform their goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which



the carrying amount exceeds the reporting unit's fair value. The amendments in this update are effective prospectively during interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

### Note 3. Acquisitions

#### ESWindows Acquisition

On December 2, 2016, we acquired 100% of the stock of ESW LLC, 85.06% of which was acquired directly by Tecnoglass and 14.94% by our subsidiary ES, for a total purchase price of \$13,500, which consisted of (i) 734,400 ordinary shares issued in connection with the transaction for approximately \$9,200 based on a stock price of \$12.50, (ii) approximately \$2,300 in cash, and (iii) approximately \$2,000 related to the assignment of certain accounts receivable from Ventana Solar S.A. ("VS"). The company paid \$2,382 in cash for the during the six month period ending June 30, 2017.

VS, a Panama *sociedad anonima*, is an importer and installer of the Company's products in Panama. Family members of the Company's CEO and COO and other related parties own 100% of the equity in VS. During 2015 and 2014, the Company and VS executed a short-term payment agreement and a three-year payment agreement that were mainly created to fund working capital to VS due the timing difference between the collections from VS's customers. On December 2, 2016 the outstanding amount of \$2,016 was reassigned to the former shareholders of ESW LLC as part of the consideration paid for the acquisition of ESW. As a result, the Company does not have any outstanding receivable under these payment agreements as of December 31, 2016. See Note 14 – Related Parties for more information.

As the Acquisition of ESW LLC was deemed to be a transaction between entities under common control, the assets and liabilities were transferred at the historical cost of ESW LLC, with prior periods retroactively adjusted to include the historical financial results of the acquired company for the period they were controlled by the previous owners of ESW LLC in the Company's financial statements.

The following table includes the financial information as originally reported and the net effect of the ESW acquisition after elimination of intercompany transactions.

|                                                    | Three months ended June 30, 2016 |                           |                         |
|----------------------------------------------------|----------------------------------|---------------------------|-------------------------|
|                                                    | Without acquisition              | Net effect of acquisition | Considering acquisition |
| Net Revenues                                       | \$77,513                         | \$ 2,300                  | \$79,813                |
| Net (loss) income attributable to parent           | \$14,373                         | \$ 306                    | \$14,679                |
| Basic income per share                             | \$0.51                           | \$ -                      | \$0.51                  |
| Diluted income per share                           | \$0.44                           | \$ -                      | \$0.44                  |
| Basic weighted average common shares outstanding   | 28,155,601                       | 734,400                   | 28,890,001              |
| Diluted weighted average common shares outstanding | 32,480,141                       | 734,400                   | 33,214,541              |

|                                                    | Six months ended June 30, 2016 |                           |                         |
|----------------------------------------------------|--------------------------------|---------------------------|-------------------------|
|                                                    | Without acquisition            | Net effect of acquisition | Considering acquisition |
| Net revenues                                       | \$138,416                      | \$ 5,252                  | \$143,668               |
| Net (loss) income attributable to parent           | \$28,037                       | \$ 998                    | \$29,035                |
| Basic income per share                             | \$1.00                         | \$ 0.01                   | \$1.01                  |
| Diluted income per share                           | \$0.86                         | \$ 0.01                   | \$0.87                  |
| Basic weighted average common shares outstanding   | 27,992,868                     | 734,400                   | 28,727,268              |
| Diluted weighted average common shares outstanding | 32,492,588                     | 734,400                   | 33,226,988              |
| Cash used in operating activities                  | \$(7,373)                      | ) \$ 4,754                | \$(2,619)               |
| Net increase in cash                               | \$11,039                       | \$ 3,415                  | \$14,454                |

The number of basic and diluted weighted average common shares outstanding prior to the acquisition of ESW LLC include 920,937 and 1,735,310 shares, respectively, issued after the financial statements for six months ended June 30, 2016 were issued related to a stock dividend during 2016 and 2017.

## GM&P Acquisition

On March 1, 2017, the Company acquired a 100% controlling interest in GM&P, a Florida-based commercial consulting, glazing and engineering company, specializing in windows and doors for commercial contractors. The primary reasons for the business combination are to continue Tecnoglass' long-term strategy of being vertically integrated, to streamline its distribution logistics, and to fabricate in the United States when economically

advantageous. The purchase price for the acquisition was \$35,000, of which \$6,000 of the purchase price was paid in cash by the Company on May 17, 2017, with the remaining amount to be payable by the Company in cash, stock of the Company or a combination of both at the Company's sole discretion within 180 days after closing. The total amount of acquisition-related costs was \$189, which is included in the Statement of operations for the period ending December 31, 2016.

The following table summarizes the consideration transferred to acquire GM&P and the amounts of identified assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the noncontrolling interest in Componenti USA LLC as of the acquisition date. Under ASC 805, a company can apply measurement period adjustments during the twelve-month period after the date of acquisition. During this period, the acquirer may adjust preliminary amounts recognized at the acquisition date to their subsequently determined final fair values. The allocation of the consideration transferred was based on management's judgment after evaluation of several factors, including a preliminary valuation assessment. Finalization of the analysis has not been completed and could result in measurement periods adjustments that could change the composition of current asset, fixed assets, intangible assets, goodwill, and liabilities. The goodwill is not expected to be deductible for tax purposes.

The following table summarizes the purchase price allocation of the total consideration transferred:

Consideration Transferred:

|                                                         |          |
|---------------------------------------------------------|----------|
| Notes payable (Cash or Stock)                           | \$35,000 |
| Fair value of the noncontrolling interest in Componenti | 1,141    |

| Recognized amounts of identifiable assets acquired and liabilities assumed: | Preliminary<br>Purchase<br>Price<br>Allocation | Measurement<br>Period<br>Adjustments | Adjusted<br>Purchase<br>Price<br>Allocation |
|-----------------------------------------------------------------------------|------------------------------------------------|--------------------------------------|---------------------------------------------|
| Cash and equivalents                                                        | \$ 509                                         |                                      | 509                                         |
| Accounts receivable                                                         | 42,314                                         |                                      | 42,314                                      |
| Cost and estimated earnings in excess of billings                           | 4,698                                          |                                      | 4,698                                       |
| Other current assets                                                        | 589                                            |                                      | 589                                         |
| Property, plant, and equipment                                              | 684                                            |                                      | 684                                         |
| Other non-current tangible assets                                           | 59                                             |                                      | 59                                          |
| Trade name                                                                  | 980                                            |                                      | 980                                         |
| Non-compete agreement                                                       | 165                                            |                                      | 165                                         |
| Contract backlog                                                            | 3,090                                          |                                      | 3,090                                       |
| Customer relationships                                                      | 4,140                                          |                                      | 4,140                                       |
| Accounts payable                                                            | (22,330 )                                      | 275                                  | (22,055 )                                   |
| Other current liabilities assumed                                           | (13,967 )                                      |                                      | (13,967 )                                   |
| Non-current liabilities assumed                                             | (3,634 )                                       |                                      | (3,634 )                                    |
| Total identifiable net assets                                               | 17,297                                         | 275                                  | 17,572                                      |
| Goodwill (including Workforce)                                              | \$ 18,844                                      | (275 )                               | \$ 18,569                                   |

The excess of the consideration transferred over the estimated fair values of assets acquired and liabilities assumed was recorded as goodwill. The identifiable intangible asset subject to amortization was the tradename, customer relationships, non-compete agreement, and backlog, which have a remaining useful life of two to five years. See Note 9 – Goodwill and Intangible Assets for additional information.

The following unaudited pro forma financial information assumes the acquisition had occurred as of January 1, 2016 which does not include GM&P actual results for the entire period. Pro forma results have been prepared by adjusting our historical results to include the results of GM&P adjusted for the amortization expense related to the intangible assets arising from the acquisition. The unaudited pro forma results below do not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the earliest periods presented, nor does it indicate the results of operations in future periods. The unaudited pro forma results do not include the impact of synergies, nor any potential impacts on current or future market conditions which could alter the following unaudited pro forma results.

|                                                 | <b>Actual<br/>Three<br/>Months<br/>Ended<br/>June 30,<br/>2017</b> | <b>Pro-Forma<br/>Three<br/>Months<br/>Ended<br/>June 30,<br/>2016</b> | <b>Pro-Forma<br/>Six Months<br/>Ended<br/>June 30,<br/>2017</b> | <b>Pro-Forma<br/>Six Months<br/>Ended<br/>June 30,<br/>2016</b> |
|-------------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------|
| <i>(in thousands, except per share amounts)</i> |                                                                    |                                                                       |                                                                 |                                                                 |
| <b>Pro Forma Results</b>                        |                                                                    |                                                                       |                                                                 |                                                                 |
| Net sales                                       | \$ 80,976                                                          | \$ 94,935                                                             | \$ 156,780                                                      | \$ 170,706                                                      |
| Net (loss) income attributable to parent        | \$(3,560 )                                                         | \$ 15,138                                                             | \$(3,595 )                                                      | \$ 29,843                                                       |
| <b>Net income per common share:</b>             |                                                                    |                                                                       |                                                                 |                                                                 |
| Basic                                           | \$(0.11 )                                                          | \$ 0.52                                                               | \$(0.11 )                                                       | \$ 1.04                                                         |
| Diluted                                         | \$(0.11 )                                                          | \$ 0.46                                                               | \$(0.11 )                                                       | \$ 0.90                                                         |

The actual sales and net income that is included within the Statement of Operations for the six-month period ended June 30, 2017 is \$43,462 and \$3,623, respectively.

### **Non-controlling interest**

With the Acquisition of GM&P, the Company also acquired a 60% equity interest in Componenti USA LLC, a subsidiary of GM&P that provides architectural specialties in the US, specializing in design-build systems for individual projects and with experience in value engineering to create products that comply with the architects' original design intent, while maintaining focus on affordable construction methods and materials. The 40% non-controlling

interest in Componenti is included in the opening balance sheet as of the acquisition date and its fair value amounted to \$1,141. When the company owns a majority (but less than 100%) of a subsidiary's stock, the Company includes in its Consolidated Financial Statements the non-controlling interest in the subsidiary. The non-controlling interest in the Condensed Consolidated Statements of Operations and Other Comprehensive Income is equal to the non-controlling interests' proportionate share of the subsidiary's net income and, as included in Shareholders' Equity on the Condensed Consolidated Balance Sheet, is equal to the non-controlling interests' proportionate share of the subsidiary's net assets.

**Note 4. – Trade accounts receivable**

Trade accounts receivable consists of the following:

|                                       | June 30,<br>2017 | December<br>31, 2016 |
|---------------------------------------|------------------|----------------------|
| Trade accounts receivable             | \$108,806        | \$ 94,380            |
| Less: Allowance for doubtful accounts | (2,493 )         | (2,083 )             |
|                                       | \$106,313        | \$ 92,297            |

The changes in allowances for doubtful accounts for the six months June 30, 2017 and the year ended December 31, 2016 are as follows:

|                                                               | June<br>30,<br>2017 | December<br>31, 2016 |
|---------------------------------------------------------------|---------------------|----------------------|
| Balance at beginning of year                                  | \$2,083             | \$ 189               |
| Provision for bad debts                                       | 2,617               | 4,686                |
| Allowance from acquired business                              | 1,000               | -                    |
| Deductions and write-offs, net of foreign currency adjustment | (3,207)             | (2,792 )             |
| Balance at end of year                                        | \$2,493             | \$ 2,083             |

**Note 5. - Inventories, net**

Inventories are comprised of the following:

|                           | June 30,<br>2017 | December<br>31, 2016 |
|---------------------------|------------------|----------------------|
| Raw materials             | \$39,499         | \$ 40,219            |
| Work in process           | 9,137            | 5,606                |
| Finished goods            | 6,773            | 4,124                |
| Stores and spares         | 5,525            | 5,016                |
| Packing material          | 340              | 284                  |
|                           | 61,274           | 55,249               |
| Less: inventory allowance | (146 )           | (157 )               |
|                           | \$61,128         | \$ 55,092            |

**Note 6. Other Current Assets and Other Long-Term Assets**

Other current assets are comprised of the following:

|                                               | June 30,<br>2017 | December<br>31, 2016 |
|-----------------------------------------------|------------------|----------------------|
| Unbilled receivables on uncompleted contracts | \$-              | \$ 6,625             |
| Prepaid Expenses                              | 1,085            | 1,183                |
| Prepaid Taxes                                 | 12,712           | 14,080               |
| Advances and other receivables                | 1,608            | 2,009                |
| Other current assets                          | \$15,405         | \$ 23,897            |



Other long-term assets are comprised of the following:

|                         | June<br>30,<br>2017 | December<br>31, 2016 |
|-------------------------|---------------------|----------------------|
| Real estate investments | \$5,044             | \$ 5,125             |
| Cost method investment  | 500                 | 500                  |
| Other long-term assets  | 1,984               | \$ 1,687             |
|                         | \$7,528             | \$ 7,312             |

#### **Note 7. Other Current Liabilities**

Other current liabilities are comprised of the following:

|                             | June<br>30,<br>2017 | December<br>31, 2016 |
|-----------------------------|---------------------|----------------------|
| Taxes payable               | \$3,777             | \$ 16,845            |
| Labor liabilities           | 1,268               | 1,410                |
| Billings in excess of costs | 1,296               | \$ -                 |
|                             | \$6,341             | \$ 18,255            |

#### **Note 8. Property, Plant and Equipment, Net**

Property, plant and equipment consist of the following:

|                                           | June 30,<br>2017 | December<br>31, 2016 |
|-------------------------------------------|------------------|----------------------|
| Building                                  | \$52,239         | \$50,887             |
| Machinery and equipment                   | 132,708          | 132,333              |
| Office equipment and software             | 5,093            | 4,980                |
| Vehicles                                  | 1,799            | 1,648                |
| Furniture and fixtures                    | 2,237            | 2,141                |
| Total property, plant and equipment       | 194,076          | 191,989              |
| Accumulated depreciation and amortization | (56,922 )        | (49,277 )            |
| Net value of property and equipment       | 137,154          | 142,712              |

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|                                          |           |           |
|------------------------------------------|-----------|-----------|
| Land                                     | 27,969    | 28,085    |
| Total property, plant and equipment, net | \$165,123 | \$170,797 |

Depreciation expense for the three and six months ended June 30, 2017 amounted to \$4,525 and \$8,820, respectively, and \$3,535 and \$6,672 for the three and six months ended June 30, 2016.

**Note 9. Goodwill and Intangible Assets**

**Goodwill**

The table below provides a reconciliation of the beginning and ending balances of the Goodwill recorded on the Company's balance sheet:

|                                       |          |
|---------------------------------------|----------|
| Beginning balance - December 31, 2016 | \$1,330  |
| GM&P Acquisition                      | 18,844   |
| Measurement period adjustment         | (275 )   |
| Ending balance – June 30, 2017        | \$19,899 |

The \$275 represents a measurement period adjustment to the preliminary purchase price allocation of the GMP acquisition which impacted accounts payable from the reconciliation of the accounts as of the opening balance sheet date on March 1<sup>st</sup>, 2017.

**Intangible Assets**

Intangible assets include Miami-Dade County Notices of Acceptances (NOA's), which are certificates in the required to market hurricane- resistant glass in Florida. Also, it includes the intangibles acquired from the acquisition of GM&P and Componenti.

|                                                  | June 30, 2017 |                |          | December 31, 2016 |                |         |
|--------------------------------------------------|---------------|----------------|----------|-------------------|----------------|---------|
|                                                  | Gross         | Acc.<br>Amort. | Net      | Gross             | Acc.<br>Amort. | Net     |
| Trade Names                                      | \$980         | \$(65 )        | \$915    | \$-               | \$-            | \$-     |
| Notice of Acceptances (NOAs) and product designs | 9,321         | (4,261 )       | 5,060    | 8,524             | (3,969 )       | 4,555   |
| Non-compete Agreement                            | 165           | (11 )          | 154      | -                 | -              | -       |
| Contract Backlog                                 | 3,090         | (515 )         | 2,575    | -                 | -              | -       |
| Customer Relationships                           | 4,140         | (296 )         | 3,844    | -                 | -              | -       |
|                                                  | \$17,696      | \$(5,148 )     | \$12,548 | \$8,524           | \$(3,969 )     | \$4,555 |

During the three and six months ended June 30, 2017, amortization expense amounted to \$936 and \$1,546, respectively, and was included within the general and administration expenses in our condensed consolidated statement of operations. Similarly, amortization expense during the three and six months ended June 30, 2016 amounted to \$202 and \$396. The average amortization period is 5 years for the tradename, customer relationships, and non-complete agreement; for the contract backlog is 2 years, and between 5 and 10 years for the NOAs.

The estimated aggregate amortization expense for each of the five succeeding years as of June 30, 2017 is as follows:

| Year Ending       | (in<br>thousands) |
|-------------------|-------------------|
| 2017 (six months) | \$ 1,604          |
| 2018              | 3,322             |
| 2019              | 2,034             |
| 2020              | 1,655             |
| 2021              | 1,624             |
| Thereafter        | 2,309             |
|                   | \$ 12,548         |

**Note 10. Debt**

As of June 30, 2017, the Company owed \$226,922 under its various borrowing arrangements. The obligations have maturities ranging from a twelve months on revolving lines of credit to 15 years that bear interest at rates ranging from 2.9% to 8.2% and a weighted average of 7.7%.

On January 23, 2017, the Company issued a U.S. dollar denominated, \$210,000 offering of a 5-year senior unsecured note at a coupon rate of 8.2% in the international debt capital markets under Rule 144A/Reg S of the Securities Act to qualified institutional buyers. The Company used approximately \$182,189 of the proceeds to repay outstanding indebtedness and as a result achieved a lower cost of debt and strengthened its capital structure given the non-amortizing structure of the new facility. Of these repayments, \$59,444 were used to refinance short term debt into long term debt. The Company's condensed consolidated balance sheets as of December 31, 2016 reflects the effect of this refinance of the Company's current portion of long term debt and other current borrowings into long term debt based on the Company's intent as of that date, as per guidance of ASC 470, which states that a short-term obligation shall be excluded from current liabilities if the entity intends to refinance the obligation on a long-term basis and the intent to refinance the short-term obligation on a long-term basis is supported by a post-balance-sheet-date issuance of a long-term obligation.

In accordance with ASC Topic No. 470, “Debt – Modifications and Extinguishments” (Topic 470), a company needs to determine whether a modification or exchange of a term loan or debt security should be accounted for as a modification or an extinguishment. The Company determined that the issuance of the 5-year senior unsecured note under Rule 144A/Reg S was not considered a modification since the note issuance proceeds were used to extinguish an existing debt and the note issuance was accounted for as a liability equal to the proceeds received. As such, the payoff of the January 2016 credit facility was determined to be an extinguishment of the existing debt. We recorded a loss on the extinguishment of debt in the amount of \$3,161 in the line item “Loss on Extinguishment of Debt” in our Condensed Consolidated Statements of Operations and Comprehensive Income. The write-off of the remaining debt issuance costs related to the January 2016 credit facility was added back as a non-cash item in the Cash Flows from Operations.

The Company’s debt is comprised of the following:

|                                                                      | June 30,<br>2017 | December<br>31, 2016 |
|----------------------------------------------------------------------|------------------|----------------------|
| Revolving lines of credit                                            | \$434            | \$13,168             |
| Capital lease                                                        | -                | 23,696               |
| Unsecured senior note                                                | 210,000          | -                    |
| Other loans                                                          | 23,928           | 165,330              |
| Less: Deferred cost of financing                                     | (7,440 )         | (2,597 )             |
| Total obligations under borrowing arrangements                       | 226,922          | 199,597              |
| Less: Current portion of long-term debt and other current borrowings | 5,466            | 2,651                |
| Long-term debt                                                       | \$221,456        | \$196,946            |

Maturities of long term debt and other current borrowings are as follows as of June 30, 2017:

|            |           |
|------------|-----------|
| 2018       | \$5,466   |
| 2019       | 2,307     |
| 2020       | 2,318     |
| 2021       | 2,328     |
| 2022       | 212,339   |
| Thereafter | 9,604     |
| Total      | \$234,362 |

The Company had \$0 and \$8,366 of property, plant and equipment as well as \$4,839 and \$4,757 of other long-term assets pledged to secure \$3,439 and \$109,193 under various lines of credit as of June 30, 2017 and December 31, 2016, respectively. Differences between pledged assets and the amount secured is related to the difference between carrying value of such assets recorded at historical cost and the guarantees issued to the banks which are based on the market value of the real estate.

**Note 11. Income Taxes**

The Company files income tax returns for TG and ES in the Republic of Colombia. On December 28, 2016, the Colombian Congress enacted a structural tax reform that took effect on January 1, 2017 which reduces corporate income tax from 42% to 40% for fiscal year 2017, 37% in 2018 and 33% in 2019 and thereafter. As a result of the Colombian tax reform from December 28, 2016, the Company's net deferred tax liability decreased \$586 as of December 31, 2016.

ESW LLC is an LLC that was not subject to income taxes for the eleven month period ended December 2, 2016, since it was a pass-through entity for tax purposes. ESW LLC was converted to a C-Corporation and was subject to income taxes starting on December 3, 2016. The estimated income tax rate for C-Corporations ranges between 10% and 39.5%. Tecnoglass Inc. as well as all the other subsidiaries in the Cayman Islands and Panama do not currently have any tax obligations.

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

|                                | Three months<br>ended June 30, |         | Six months ended<br>June 30, |         |
|--------------------------------|--------------------------------|---------|------------------------------|---------|
|                                | 2017                           | 2016    | 2017                         | 2016    |
| Current income tax:            |                                |         |                              |         |
| United States                  | \$1,759                        | \$-     | \$2,211                      | \$-     |
| Foreign                        | (630 )                         | 4,406   | 1,650                        | 7,662   |
| Total current income tax       | 1,129                          | 4,406   | 3,861                        | 7,662   |
| Deferred income tax:           |                                |         |                              |         |
| United States                  | (377 )                         | -       | 3                            | -       |
| Foreign                        | (4,804)                        | (345 )  | (6,874)                      | 42      |
| Total deferred income tax      | (5,181)                        | (345 )  | (6,871)                      | 42      |
| Total Provision for Income tax | \$(4,052)                      | \$4,061 | \$(3,010)                    | \$7,704 |
| Effective tax rate             | 43.1 %                         | 15.7 %  | 40.4 %                       | 21.0 %  |

The Company's effective tax rate of 43.1% and 40.4% for the three and six-month period ended June 30, 2017, respectively, reflects the adoption of the Colombian tax reform described above, which became effective January 1, 2017. The Company's effective tax rate of 15.7% and 21% for the three and six-month period ended June 30, 2016 reflects non-taxable gains of \$6,687 and \$12,598 due to the change in fair value of the Company's warrant liability relative to their fair value at the beginning of the period during the three and six-month periods ended June 30, 2016, respectively, and non-taxable gain of \$3,330 and \$7,034 due to the change in fair value of the Company's earn out share liability relative to their fair value as of at the beginning of the period during the three and six-month periods ended June 30, 2016, respectively.

## Note 12. Fair Value Measurements

The Company accounts for financial assets and liabilities in accordance with accounting standards that define fair value and establish a framework for measuring fair value. The hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability,

either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. The classification of a financial asset or liability within the hierarchy is determined by the lowest level inputs that are significant to the fair value measurement. Results of operations are impacted by the movement in the level 2 and 3 instruments on a periodic basis.

The Company has marketable equity securities with fair values obtained from a quoted price in an active market (Level 1) amounting to \$515 and \$505 as of June 30, 2017 and December 31, 2016, respectively. As of December 31, 2016 the Company had Interest rate swap derivative liability with fair value obtained using significant other observable inputs (Level 2) amounting to \$23.

As of June 30, 2017 and December 31, 2016, financial instruments carried at amortized cost that do not approximate fair value consist of long-term debt. See Note 10 - Debt. The fair value of long term debt was calculated based on an analysis of future cash flows discounted with our weighted average cost of debt based on market rates, which are Level 2 inputs. Other financial instruments such as accounts receivable have carrying values that approximate fair value as they are short-term in nature.



The following table summarizes the fair value and carrying amounts of our long-term debt:

|                    | June 30,<br>2017 | December<br>31, 2016 |
|--------------------|------------------|----------------------|
| Fair Value         | \$239,397        | \$190,190            |
| Net Carrying Value | \$221,456        | \$196,946            |

### Note 13. Geographic Information

Revenue by geographic region consist of the following:

|                | Three months<br>ended |          | Six months ended |           |
|----------------|-----------------------|----------|------------------|-----------|
|                | June 30,<br>2017      |          | June 30,<br>2017 |           |
|                | 2017                  | 2016     | 2017             | 2016      |
| Colombia       | \$15,525              | \$28,300 | \$31,953         | \$46,878  |
| United States  | 60,342                | 47,774   | 106,650          | 87,892    |
| Panama         | 830                   | 1,511    | 2,093            | 4,425     |
| Other          | 4,279                 | 2,228    | 6,097            | 4,473     |
| Total Revenues | \$80,976              | \$79,813 | \$146,793        | \$143,668 |

### Note 14. Related Parties

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

|                                     | Three months<br>ended June 30,<br>2017 |         | Six months<br>ended June 30,<br>2017 |         |
|-------------------------------------|----------------------------------------|---------|--------------------------------------|---------|
|                                     | 2017                                   | 2016    | 2017                                 | 2016    |
| Sales to related parties            | \$1,091                                | \$1,460 | \$2,465                              | \$4,431 |
| Expenses                            |                                        |         |                                      |         |
| Fees paid to directors and officers | 662                                    | 388     | 1,372                                | 836     |
| Payments to other related parties   | 1,066                                  | 396     | 1,872                                | 1,433   |

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|                                | June<br>30,<br>2017 | December<br>31, 2016 |
|--------------------------------|---------------------|----------------------|
| Current Assets:                |                     |                      |
| Due from VS                    | \$6,434             | \$ 9,143             |
| Due from other related parties | 2,097               | 1,852                |
|                                | \$8,531             | \$ 10,995            |
| Liabilities:                   |                     |                      |
| Due to related parties         | \$1,435             | \$ 3,668             |

Ventanas Solar S.A. (“VS”), a Panama *sociedad anonima*, is an importer and installer of the Company’s products in Panama. Family members of the Company’s CEO and COO and other related parties own 100% of the equity in VS. The Company’s sales to VS for the three and six months ended June 30, 2017 were \$739 and \$1,889, respectively, and \$1,257 and \$3,946 during the three and six months ended June 30, 2016, respectively.

Payments to other related parties during the six months ended June 30, 2017 include charitable contributions to the Company’s foundation for \$1,158 and sales commissions for \$420.

Due to related party included a balance of \$2,303 payable to the former shareholders of ESW LLC as part of the consideration paid for the acquisition as of December 16, 2016. (See Note 3 – Acquisitions for further details). This had been fully paid as of June 30, 2017.

#### **Note 15. Dividends Payable**

On August 4, 2016, the Company's Board of Directors authorized the payment of regular quarterly dividends to holders of ordinary shares at a quarterly rate of \$0.125 per share, or \$0.50 per share on an annual basis. The dividend is being paid in cash or ordinary shares, chosen at the option of holders of ordinary shares and the value of the ordinary shares to be used to calculate the number of shares to be issued with respect to that portion of the dividend payable in ordinary shares was the average of the closing price of the Company's ordinary shares on NASDAQ during the period from July 10, 2017 through July 21, 2017. If no choice was made during this election period, the dividend for this election period was to be paid in ordinary shares of the Company.

As a result, the Company has a dividend payable amounting to \$1,526 as of June 30, 2017. The Company issued 381,440 shares for the stock dividends paid on April 26, 2017.

The company analyzed the accounting guidance under ASC 505 and determined that this guidance is not applicable since the dividend are shares of the same class in which each shareholder is given an election to receive cash or shares. As such, the company analyzed the dividend under ASC 480 — Distinguishing Liabilities from Equity and concluded that the dividend should be accounted for as a liability since the dividend is a fixed monetary amount known at inception. A reclassification from dividend payable to additional paid-in capital was done for the stocks dividend elections.

Commencing with the quarterly dividend for the third quarter of 2017 through the dividend for the second quarter of 2018, the dividend will be increased to \$0.14 per share, or \$0.56 per share on an annual basis. The quarterly dividend of \$0.14 per share for the third quarter of 2017 will be payable to shareholders of record as of the close of business on September 29, 2017.

Energy Holding Corp., the majority shareholder of the Company, has irrevocably elected to receive any quarterly dividends declared through the second quarter of 2018 in ordinary shares, as opposed to cash.

Dividend declarations and the establishment of future record and payment dates are subject to the Board of Directors' continuing determination that the dividend policy is in the best interests of the Company and its shareholders. The

dividend policy may be changed or cancelled at the discretion of the Board of Directors at any time.

## **Note 16. Commitments and Contingencies**

### ***Guarantees***

As of June 30, 2017, the Company does not have guarantees on behalf of other parties.

### ***Legal Matters***

On March 2, 2016 ES filed a lawsuit against Bagatelos Architectural Glass Systems, Inc. (“Bagatelos”) in Colombia. In addition, we also filed a lawsuit against Bagatelos in the State of California for breach of contract. To lift the lien declared by the Court in California, Bagatelos submitted a bond for \$2,000 in favor of ES and its release is subject to the court’s ruling. This bond is a “mechanics lien surety bond” which guarantees ES payment of the amounts due with interest and costs should the Company win the case. Mediation scheduled for February 17, 2017 was unsuccessful and parties continue discovery. Bagatelos as defendant presented a cross complaint on September 23, 2016 seeking damages of approximately \$3,000. Although we already received a payment order from the Colombian judge, the Company continues to pursue its rights, remedies and defenses in the U.S. We received on January 31, 2017 a case update from our U.S. counsel stating that due to ES’ favorable terms and conditions and the fact that Bagatelos has overstated their claim and ignored their contractual duties, it is probable that the Company will be able to recover the outstanding amount of \$2,000.

### ***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 17. Subsequent Events**

Management 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**

We are a leading manufacturer of hi-spec architectural glass and windows for the western hemisphere residential and commercial construction industries, operating through our direct and indirect subsidiaries. Headquartered in Barranquilla, Colombia, we operate out of a 2.7 million square foot vertically-integrated, state-of-the-art manufacturing complex that provides easy access to the Americas, the Caribbean, and the Pacific.

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

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

The Company' glass products include tempered glass, laminated glass, thermo-acoustic glass, curved glass, silk-screened glass, and digital print glass as well as mill finished, anodized, painted aluminum profiles and produces rods, tubes, bars and plates. Window production lines are defined depending on the different types of windows: normal, impact resistant, hurricane-proof, safety, soundproof and thermal. The Company produces fixed body, sliding windows, projecting windows, guillotine windows, sliding doors and swinging doors. ES produces façade products which include: floating facades, automatic doors, bathroom dividers and commercial display windows.

**RESULTS OF OPERATIONS**

|                                                       | Three Months<br>Ended June 30, |                 | Six Months Ended<br>June 30, |                 |
|-------------------------------------------------------|--------------------------------|-----------------|------------------------------|-----------------|
|                                                       | 2017                           | 2016            | 2017                         | 2016            |
| Operating Revenues                                    | \$80,976                       | \$79,813        | \$146,793                    | \$143,668       |
| Cost of sales                                         | 58,432                         | 51,823          | 101,997                      | 90,988          |
| <b>Gross profit</b>                                   | <b>22,544</b>                  | <b>27,990</b>   | <b>44,796</b>                | <b>52,680</b>   |
| Operating expenses                                    | (17,128)                       | (15,262)        | (32,518 )                    | (28,204 )       |
| <b>Operating income</b>                               | <b>5,416</b>                   | <b>12,728</b>   | <b>12,278</b>                | <b>24,476</b>   |
| Change in fair value of earnout shares liability      | -                              | 3,330           | -                            | 7,034           |
| Change in fair value of warrant liability             | -                              | 6,687           | -                            | 12,598          |
| Non-operating income                                  | 922                            | 1,246           | 1,949                        | 2,263           |
| Foreign currency transactions gains (losses)          | (8,713 )                       | (1,009 )        | (6,288 )                     | (2,266 )        |
| Loss on extinguishment of debt                        | (2 )                           | -               | (3,161 )                     | -               |
| Interest Expense                                      | (5,175 )                       | (4,242 )        | (10,257 )                    | (7,366 )        |
| Income tax provision                                  | 4,052                          | (4,061 )        | 3,010                        | (7,704 )        |
| <b>Net (loss) income</b>                              | <b>(3,500 )</b>                | <b>14,679</b>   | <b>(2,469 )</b>              | <b>29,035</b>   |
| Less: Income attributable to non-controlling interest | 60                             | -               | 72                           | -               |
| <b>Net (loss) income attributable to parent</b>       | <b>\$(3,560 )</b>              | <b>\$14,679</b> | <b>\$(2,541 )</b>            | <b>\$29,035</b> |

**Comparison of quarterly periods ended June 30, 2017 and June 30, 2016****Revenues**

The Company's net operating revenues increased \$1.2 million or 1% from \$79.8 million to \$81.0 million for the quarterly period ended June 30, 2017 compared with the quarterly period ended June 30, 2016.

Sales in the U.S. market for the second quarter of 2017 increased \$12.6 million or 26% compared to the same period of 2016. The Company's sales in the North American market continue to have the south Florida region as its main component but are being continuously diversified into other regions within the U.S. Our increase in sales in overall terms and into the U.S market were mainly derived from the recent acquisition of GM&P which started contributing its sales since its March 1<sup>st</sup> acquisition date. Sales were impacted by a handful of large projects that have been delayed and as such product deliveries and invoicing are being pushed back to the second half of 2017 and into 2018. The delays happen for a number of reasons not in the Company's control including a project not achieving financial closing in the expected time and design modifications. Total expected revenues from these projects are not impacted due to the adjustment in the new timeframe.



Sales in the Colombian market decreased \$12.8 million, or 45%, due to a general delay in local construction activity, mainly associated with market factors and pent up activity related to delays caused by macro factors such as the passing of the country's structural tax reform and the successful completion of the ongoing peace treaty. Sales to Panama decreased \$0.7 million or 45% in the three months ended June 30, 2017 compared to the three months ended June 30, 2016. As evidenced in the preceding breakdown of revenues by geography, the Company's revenues have increasingly continued to weigh toward the U.S market, accounting for 75% of the total for the three-month period ended June 30, 2017 versus 60% for the comparable period ended June 30, 2016.

### **Margins**

Sales margins calculated by dividing the gross profit by operating revenues decreased from 35.1% to 27.8% in the quarterly periods ended June 30, 2016 and 2017, respectively. The reduction in margins is the result of a combination of factors, including a higher depreciation and amortization expense associated with the capital expenditure investment phase that concluded in 2016 a higher amount of fixed costs (mainly direct and indirect labor) put in place ahead of time to support higher than realized sales and a higher component of GM&P revenues which inherently weights down the overall gross margins as the services such as installation and engineering carry a lower margin. It is also worth noting that most of GM&P's costs are related to labor which is accounted for as part of the company's cost of good sold (thus causing a higher impact on gross profits). The impact is partially offset at the operating margin level, given the lean administrative structure carried by GM&P.

## **Expenses**

Operating expenses increased 12.2% from \$15.3 million to \$17.1 million, for the quarterly period ended June 30, 2017 when compared to the quarterly period ended June 30, 2016. The increase was primarily the result of \$1.6 million accounts receivable provision, most of which is associated to a particular large project that had a significant change in its scope of work, a \$0.8 million increase in depreciation and amortization expense, which went from \$0.4 million in the second quarter of 2016 to \$1.3 million in the second quarter of 2017 resulting from the intangible assets acquired through the acquisition of GM&P during the first quarter of 2017. The acquired companies, GM&P and Componenti, contributed \$1.2 million incremental operating expenses. The Company's personnel expense increased \$0.5 million partially as a result of a few employees from the newly acquired companies and annual salary increases. These increases were offset by a decrease of \$1.2 million in shipping and handling during the second quarter of 2017, which decreased 29%, despite sales increasing 1% as a result of efficiencies in the logistics process and our ability to do some manufacturing out of our GM&P facility. Additionally, professional fees for business and accounting related consulting decreased \$0.6 million and sales commissions decreased \$0.3 million.

## **Non-operating Income (Loss)**

During the three months ended June 30, 2017 and 2016, the Company reported net non-operating income of \$0.9 and \$1.2 million, respectively, comprised primarily of income from rental properties and gains on sale of scrap materials. The Company recorded a loss of \$8.7 million associated to foreign currency transactions, most of which is associated to the remeasurement of US dollar denominated monetary assets and liabilities held by the Company's subsidiaries with the Colombian peso as their functional currency primarily comprised of a US dollar denominated intercompany loan underlying the \$210 million senior note issued in January of 2017 offset by some account receivable and cash balances as the US dollar to Colombian peso exchange rate increased 5.5% during the quarter of 2017. This was comparable with a loss in foreign currency transactions of \$1.0 million during the quarter ended June 30, 2016.

## **Interest Expense**

Interest expense increased \$0.9 million, or 22%, between the quarters ended June 30, 2016 and 2017, as a result of an overall increase in our debt which supported the conclusion of our growth capex phase in 2016. The increase in debt has increased, commensurate to a general increase in sales and business activity and is expected to remain at current levels for the remainder of the year. Despite the increase in the nominal amount of our debt, the company was able to lower its cost of financing through the recently completed bond issuance and bank debt refinance.

## **Income taxes**

The Company recorded an income tax benefit of \$4.1 million, compared with an income tax expense of \$4.1 million. The income tax benefit as of June 30, 2016 is the result primarily of deferred income tax credit related to the loss on foreign currency transactions because of remeasurement of the Company's monetary assets and liabilities, as described above, which is not taxed in Colombia until the actual cashflow takes place and the loss or gain is realized.

## **Comparison of six-month periods ended June 30, 2017 and June 30, 2016**

### **Revenues**

The Company's net operating revenues increased \$3.1 million or 2.2% from \$143.7 million to \$146.8 million for the six-month period ended June 30, 2017 compared with the six-month period ended June 30, 2016.

Sales in the U.S. market for the first half of 2017 increased \$18.8 million or 21% compared to the same period of 2016. The Company's sales in the North American market continues to be key for the Company, mainly the South Florida region but continuously increasing and diversifying into other regions. Our increase in sales in overall terms and into the U.S market were mainly derived from the recent acquisition of GM&P which contributed its results from the March 1, 2017 date of acquisition. The acquisition of GM&P, a Florida-based commercial consulting, glazing and engineering company, specializing in windows and doors for commercial contractors, is in line with our long-term strategy to further vertically integrate our operations and strengthen our presence in U.S Markets.

Sales in the Colombian market decreased \$14.9 million, or 32%, partly due to overall market conditions and to the postponements of construction as the country underwent a structural tax reform and the successful completion of the long-awaited Peace Treaty. Sales to Panama decreased \$2.3 million or 53% in the six months ended June 30, 2017 compared to the six months ended June 30, 2016. As evidenced in the preceding breakdown of revenues by geography, the Company's revenues have increasingly continued to weigh toward the U.S market, accounting for 73% of the total for the six-month period ended June 30, 2017 versus 61% for the comparable period ended June 30, 2016. Going forward, we expect the North American revenues to continue growing as a percentage of the total, aligned with our sales strategy.

### **Margins**

Sales margins calculated by dividing the gross profit by operating revenues decreased from 36.7% to 30.5% in the six-month periods ended June 30, 2016 and 2017, respectively. The reduction in margins resulted from a higher depreciation and amortization expense associated with the capital expenditure investment phase that concluded in 2016; carrying a more robust structure with higher fixed costs (mainly direct and indirect labor) being diluted over a lower than expected revenue mainly caused by the postponement of deliveries in certain large projects, and by the acquisition of GM&P which carries lowers margins in line with the services it provides. We are currently undergoing a company-wide analysis to seek cost reductions and added efficiencies.

**Expenses**

Operating expenses increased 15% from \$28.2 million to \$32.5 million, for the six-month period ended June 30, 2017 when compared to the six-month period ended June 30, 2016. The increase was primarily the result of \$2.6 million accounts receivable provision, most of which is associated to a particular large project which had a change of scope, a \$1.3 million increase in depreciation and amortization expense, which went from \$0.9 million in the first half of 2016 to \$2.2 million in same period of 2017 mainly as a result of the amortization of intangible assets acquired through the acquisition of GM&P during the first quarter of 2017. Personnel expense also increased \$1.7 million or 27%, due to a more robust structure being put in place to address higher expected sales and to the acquisition of GM&P and Componenti. The acquired companies, contributed \$1.6 million additional incremental operating expenses. These increases were offset by of \$1.3 million decrease in shipping and handling expense during the second semester of 2017 , which declined 17%, despite sales increasing 2% as a result of added efficiencies in our logistical process and being able to carry out some manufacturing through our US-based GM&P operations.

### **Loss on extinguishment of debt**

Upon the issuance of the 5-year senior unsecured note under Rule 144A mentioned below in the liquidity section, the Company determined that issuance was not considered a modification or exchange of the seven-year senior secured credit facility issued in January 2016 however proceeds from the new issuance were used to repay the previous credit facility and the new issuance was accounted for as a liability equal to the proceeds received. As such, the payoff of the January 2016 credit facility was determined to be an extinguishment of the existing debt. As a result, we recorded a loss on the extinguishment of debt in the amount of \$3,161. The loss represented the write off of deferred financing fees related to the extinguished debt facilities and penalties fees related to the early payoff of several loans and capital leases.

### **Non-operating Income (Loss)**

During the six months ended June 30, 2017 and 2016, the Company reported net non-operating gain of \$1.9 and \$2.3 million, respectively, comprised primarily of income from rental properties and gains on sale of scrap materials. Additionally, the Company recorded a loss of \$6.3 million associated to foreign currency transactions, most of which is associated to the remeasurement of US dollar denominated monetary assets and liabilities held by the Company's subsidiaries with the Colombian peso as their functional currency primarily comprised of a US dollar denominated intercompany loan underlying the \$210 million senior note issued in January of 2017 offset by some account receivable and cash balances as the US dollar to Colombian peso exchange rate increased 5% during the quarter of 2017., comparable with a loss in foreign currency transactions of \$2.3 million during the first half of 2016.

### **Interest Expense**

Interest expense increased \$2.9 million, or 39% as a result of debt increase to finance 2016 capital expenditures and one month of double interest expense between the issuance of the bond discussed below and repayment of previous debt. Our debt has increased, commensurate to a general increase in sales and business activity and is expected to remain at current levels for the remainder of the year.

### **Income taxes**

The Company recorded an income tax benefit of \$3.0 million, compared with an income tax expense of \$7.7 million. The income tax benefit as of June 30, 2016 is the result primarily of deferred income tax credit related to the loss on foreign currency transactions as a result of remeasurement of the Company's monetary assets and liabilities, as

described above, which is not taxed in Colombia until the actual cashflow takes place and the loss or gain is realized.

**LIQUIDITY AND CAPITAL RESOURCES**

As of June 30, 2017, and December 31, 2016, the Company had cash and cash equivalents of approximately \$43.7 million and \$26.9 million, respectively. The main sources of cash for the six-month ended period were the cash flows from operations and the proceeds derived from the bond issuance. The Company's primary sources of liquidity to support its working capital needs and short-term capital expenditures will be its readily available cash balance and cash flow generated from operating activities.

**Cash Flow from Operations, Investing and Financing Activities**

|                                                       | <b>Six months ended</b> |             |
|-------------------------------------------------------|-------------------------|-------------|
|                                                       | <b>June 30,</b>         |             |
|                                                       | <b>2017</b>             | <b>2016</b> |
| Cash Flow from Operating Activities                   | \$12,194                | \$(2,619 )  |
| Cash Flow from Investing Activities                   | (12,537)                | (27,461)    |
| Cash Flow from Financing Activities                   | 17,658                  | 44,868      |
| Effect of exchange rates on cash and cash equivalents | (551 )                  | (334 )      |
| Cash Balance - Beginning of Period                    | 26,918                  | 22,671      |
| Cash Balance - End of Period                          | \$43,682                | \$37,125    |

The principal sources of cash during the six months of 2017 was related to the cash generated from our operations and the issuance of an unsecured senior note to pay down existing indebtedness and general corporate purposes.

During the six months ended June 30, 2017 and 2016, \$12.2 million and \$2.6 million were provided by and used in operating activities, respectively. The principal source of cash was trade accounts payable and accrued expenses, generated \$15.4 and \$16.8 million during the first half of 2017 and 2016, respectively. This is primarily associated with the accrual of interest expense related to the Unsecured senior note issued in January 2017 discussed below, with interest payable semi-annually, with the first interest payment made on July 28, 2017.

Furthermore, better receivables management generated \$5.8 million during the first six months of 2017 compared with a use of \$13.5 million during the same period 2016. While trade accounts receivable on the consolidated balance sheet increase \$14.0, going from \$92.3 million as of December 31, 2016 million to \$106.3 million as of June 30, 2017, trade accounts receivable generated cash. The reason behind this is that much of the growth in receivables was related to the acquisition of GM&P which contributed \$32.4 million of net incremental accounts receivable as of June 30, 2017.





For the six months ended June 30, 2017, the acquisition of GM&P needs to be normalized in order to properly assess the Company's days sales outstanding as only four months of sales is being incorporated, however, the full accounts receivable balance of this entity is included on the balance sheet as of the quarter end. Had the Company not acquired GM&P, days sales outstanding calculated using revenues from the twelve months ended June 30, 2017 would have decreased 14 days relative to the 110 days outstanding as of December 31, 2016 to 97 days, as opposed to 126 days including the effect of the GM&P acquisition, which is an increase of 15 days relative to fiscal year end.

The Company's receivables are often associated to sophisticated, long lead projects that typically have longer collection cycles as distributors also have to collect from general contractors and in turn, they have to collect from end users which only provide a "good receipt" once certain performance conditions have been met. In addition to the shipping time into the U.S, there are often additional days to clear customs and getting the product to the end client, at which point, the days of the sales terms start counting.

The principal use of cash during the six months ended June 30, 2017 was Taxes payable, which used \$15.1 and \$5.4 million during the six months ended June 30, 2017 and 2016, respectively, as the Company paid its income tax for fiscal year 2016 during the first half of the year and reduced the tax provision for next fiscal year on the balance sheet because of the net loss for the period.

During the six months ended June 30, 2017, cash used in investing activities decreased to \$12.5 million compared with \$27.5 million during the same period of 2016, primarily as a result of one-time purchase of a \$25.0 million U.S Dollar denominated time deposit during the first quarter of 2016 with a Colombian peso denominated obligation for the same amount to hedge balance sheet foreign exchange gains and losses on its monetary assets and liabilities. Cash used for the purchase of property and equipment during the first half of 2017 and 2016, was \$4.3 and \$5.1million, respectively, while total purchases of property plant and equipment, including property plant and equipment acquired with the issuance of debt or capital lease decreased from \$16.6 million in 2016 to \$4.3 million in 2017 as there were no purchases of property, plant and equipment made with issuance of debt or under capital lease. Our capital expenditures have decreased significantly as our previous capital expenditures has provided enough manufacturing capacity to service our current backlog and expected sales through the year 2018. As such, capital expenditures in the near future are expected to be limited to the maintenance of existing capacity and for the investment in roof solar panels in order to reduce electricity expenses. Additionally, the Company used \$8.4 million to pay for the acquisitions of ESW and GM&P during the six months ended June 30, 2017.

Cash provided by financing activities, decreased from \$44.9 million during the first six months of 2016 to \$17.7 million during the first six months of 2017. During the first six months of 2016, the significant source of cash was associated to the funding of a \$109.5 million credit facility, out of which \$83.5 million were used to refinance existing debt. On January 23, 2017, the Company issued a U.S. dollar denominated \$210 million offering of a 5-year senior unsecured note at a coupon rate of 8.2% in the international debt capital markets under Rule 144A of the Securities Act to Qualified Institutional Buyers. The Company used approximately \$182.2 million of the proceeds to repay outstanding indebtedness and as a result achieved a lower cost of debt and strengthened its capital structure and liquidity given the non-amortizing structure of the new facility. Cash proceeds in excess of the amount used to pay

down outstanding debt have been invested in liquid, short-term time deposits which will be used to support ongoing growth and general corporate purposes, and are partially the reason for the increase in the Company's cash balance alongside with its positive cashflow from operations generation.

### **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**

We performed an evaluation required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of Tecnoglass, Inc.'s design and operating effectiveness of the internal controls over financial reporting as of the end of the period covered by this Quarterly Report. Based on this evaluation, our principal executive officer and principal financial officer concluded that, due to the material weakness in our internal control over financial reporting as described in our Annual Report on Form 10-K for the year ended December 31, 2016, our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, were not effective as of June 30, 2017. Notwithstanding the material weakness in our internal control over financial reporting, we believe the condensed consolidated financial statements are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States of America for each of the periods presented herein.

#### **Remediation Plan for Material Weaknesses**

During the second quarter of 2017, we have been executing our remediation plan, as designed, to strengthen our internal control system regarding the material weakness in Entity Level Controls.

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

For the quarter ended June 30, 2017, there has been no change in our internal control over financial reporting 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

#### *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.

### 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, 2017 and 2016, 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/ Santiago Giraldo*  
Santiago Giraldo  
Chief Financial Officer  
(Principal financial and accounting officer)

Date: August 11, 2017



