

Tecnoglass Inc.
Form 10-Q/A
May 31, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(MARK ONE)

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

For the quarterly period ended September 30, 2015

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

For the transition period from to

Commission file number: 001-35436

TECNOGLASS INC.

(Exact Name of Registrant as Specified in Its Charter)

Cayman Islands

98-1271120

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

(57)(5) 3734000

(Issuer's telephone number)

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

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

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

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

Large accelerated filer Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 26,914,764 ordinary shares as of March 31, 2016.

EXPLANATORY NOTE

Tecnoglass Inc. (the “Company” or “we”) is filing this Amendment No. 1 (the “Amendment”) to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (the “Original Filing”) to correct misstatements and errors in the Company’s previously issued financial statements for the nine months ended September 30, 2015.

In preparing the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, the Company identified eight non-cash errors: (1) in the way the Company had accounted for the fair value and classification of its “earnout shares”, (2) in the classification and presentation of deferred tax assets and liabilities on the consolidated balance sheets, (3) in the classification of its shipping and handling costs in the consolidated statement of operations, (4) in the presentation of related party revenues on consolidated statements of operations and comprehensive income and adequate identification of certain related parties as such, (5) in the classification of purchases and sales of investments in the consolidated statements of cash flows, (6) in the calculation of diluted earnings per share, (7) in the Company’s conclusion on certain variable interest entities and (8) in the way the Company had accounted for the fair value of the Company’s warrants exercised for ordinary shares during the third and fourth quarter of 2015. In accordance with accounting guidance presented in ASC 250-10 and SEC Staff Accounting Bulletin No. 99, Materiality, the Company’s management assessed the materiality of the errors on a consolidated basis and concluded they were material to the financial statements for the year ended December 31, 2014 and the quarterly periods within both 2015 and 2014. The Company reported non-reliance on previously filed financial statements on a Form 8-k filed on April 6, 2016. With respect to the financial statements for the year ended December 31, 2014, the errors have been corrected in the Company’s 2015 10-K by form of a restatement. The corrections applicable to the three- and nine-month periods ended September 30, 2015 and 2014 are included in this Amendment No. 1 to the Original Filing, and are further described in Note 2, Correction of Misstatements and Errors.

No other changes have been made to the Original Filing other than to modify the information as described above. This Amendment should be read in conjunction with the Original Filing. This Amendment speaks as of the date of the Original Filing, does not reflect events that may have occurred after the date of the Original Filing and does not modify or update in any way the disclosures made in the Original Filing, except as required to reflect the revisions discussed above.

TECNOGLASS INC.

FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2015

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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)**

	September 30, 2015 (Restated)	December 31, 2014 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,871	\$ 15,930
Trade accounts receivable, net	49,004	44,718
Due from related parties	31,991	28,564
Inventories, net	39,609	28,965
Other current assets	18,746	17,946
Total current assets	156,221	136,123
Long term assets:		
Property, plant and equipment, net	127,693	103,980
Long term receivables from related parties	2,536	4,220
Other long term assets	5,037	6,200
Total long term assets	135,266	114,400
Total assets	\$ 291,487	\$ 250,523
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 43,035	\$ 32,950
Due to related parties	1,713	1,999
Current portion of customer advances on uncompleted contracts	6,423	5,782
Short-term debt and current portion of long term debt	67,651	54,925
Note payable to shareholder	79	80
Earnout Share Liability	13,657	5,075
Other current liabilities	18,344	11,932
Total current liabilities	150,902	112,743

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Long term liabilities:		
Warrant liability	34,450	19,991
Earnout Share Liability	19,830	23,986
Customer advances on uncompleted contracts	8,891	8,333
Other Long term liabilities	100	-
Long term debt	49,113	39,273
Total long term liabilities	112,384	91,583
Total liabilities	\$ 263,286	\$ 204,326
COMMITMENTS AND CONTINGENCIES		
Shareholders' equity		
Preferred shares, \$0.0001 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	-	-
Ordinary shares, \$0.0001 par value, 100,000,000 shares authorized, 25,833,210 and 24,801,132 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	3	2
Legal Reserves	1,367	1,367
Additional paid-in capital	38,907	26,140
Retained earnings	19,043	30,119
Accumulated other comprehensive loss	(31,119)	(11,431)
Total shareholders' equity	\$ 28,201	\$ 46,197
Total liabilities and shareholders' equity	\$ 291,487	\$ 250,523

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(Restated)	(Restated)	(Restated)	(Restated)
Operating Revenues:				
Customers	\$ 47,148	\$ 42,416	\$ 131,078	\$ 115,317
Related Parties	15,744	11,037	41,910	37,913
Total operating revenues	62,892	53,453	172,988	153,230
Cost of sales	39,186	35,803	109,798	101,974
Gross Profit	23,706	17,650	63,190	51,256
Operating expenses	12,890	10,000	35,064	27,330
Operating income	10,816	7,650	28,126	23,926
(Loss) Gain on change in fair value or Earnout Share Liability	(2,519)	1,861	(10,191)	(9,897)
(Loss) Gain on change in fair value of warrant liability	(10,148)	6,756	(21,461)	(6,769)
Non-operating revenues, net	10,744	1,003	15,886	3,480
Interest expense	(2,307)	(2,380)	(6,509)	(6,647)
Income before taxes	6,586	14,890	5,851	4,093
Income tax provision	8,524	1,770	16,927	7,004
Net income	\$ (1,938)	\$ 13,120	\$ (11,076)	\$ (2,911)
Comprehensive (loss) income:				
Net income	\$ (1,938)	\$ 13,120	\$ (11,076)	\$ (2,911)
Foreign currency translation adjustments	(14,111)	(6,680)	(19,688)	(3,971)
Total comprehensive (loss) income	\$ (16,049)	\$ 6,440	\$ (30,764)	\$ (6,882)
Basic income per share	\$ (0.08)	\$ 0.54	\$ (0.44)	\$ (0.12)

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Diluted income per share	\$ (0.08) \$ 0.46	\$ (0.44) \$ (0.12)
Basic weighted average common shares outstanding	25,426,250	24,364,014	25,127,179	24,306,288	
Diluted weighted average common shares outstanding	30,825,331	28,637,166	29,734,663	28,261,268	

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)**

	2015 (Restated)	2014 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(11,076)	\$(2,911)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for bad debts	1,210	21
Provision for obsolete inventory	(265)	-
Depreciation and amortization	8,331	7,777
Equity method income	162	-
Change in value of derivative liability	(57)	89
Change in value of Earnout share liability	10,191	9,897
Change in fair value of warrant liability	21,461	6,769
Deferred income taxes	(1,058)	352
Changes in operating assets and liabilities:		
Trade accounts receivables	(18,429)	(10,263)
Inventories	(21,129)	(3,535)
Prepaid expenses	360	-
Other assets	(5,849)	(11,989)
Trade accounts payable	20,566	4,311
Advances from customers	5,324	(12,388)
Related parties, net	(10,766)	(8,333)
Other current liabilities	11,266	6,051
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	10,242	(14,152)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	376	368
Proceeds from sale of property and equipment	143	-
Purchase of investments	(1,444)	(1,028)
Acquisition of property and equipment	(18,228)	(24,918)
Restricted cash	-	3,605
CASH USED IN INVESTING ACTIVITIES	(19,153)	(21,973)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt	79,608	88,370
Proceeds from the sale of common stock	-	1,000
Repayments of debt	(72,461)	(62,013)
Merger proceeds held in trust	-	22,519

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CASH PROVIDED BY FINANCING ACTIVITIES	7,147	49,876
Effect of exchange rate changes on cash and cash equivalents	2,705	1,127
NET INCREASE IN CASH	941	14,878
CASH - Beginning of period	15,930	2,866
CASH - End of period	\$ 16,871	\$ 17,744
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 4,778	\$ 4,031
Income Tax	\$ 11,938	\$ 7,785
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Assets acquired under capital lease	\$ 44,624	\$ 3,152
Warrant proceeds held by trasner agent	\$ -	\$ 741

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

Tecnoglass Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

Note 1. Organization, Plan of Business Operation

Tecnoglass Inc. (“TGI,” the “Company,” “we,” “us” or “our”) was incorporated in the Cayman Islands on September 21, 2011 under the name “Andina Acquisition Corporation” (“Andina”) as a blank check company. Andina’s objective was to acquire, through a merger, share exchange, asset acquisition, share purchase recapitalization, reorganization or other similar business combination, one or more operating businesses. On December 20, 2013, Andina consummated a merger transaction (the “Merger”) with Tecno Corporation (“Tecnoglass Holding”) as ultimate parent of Tecnoglass S.A. (“TG”) and C.I. Energía Solar S.A. ES. Windows (“ES”). The surviving entity was renamed Tecnoglass Inc. The Merger transaction was accounted for as a reverse merger and recapitalization where Tecnoglass Holding was the acquirer and TGI was the acquired company. Accordingly, the business of Tecnoglass Holding and its subsidiaries became our business. We are now a holding company operating through our direct and indirect subsidiaries.

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

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

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

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

Note 2. Correction of Misstatements and Errors

The Company identified and corrected eight non-cash errors: (1) in the way the Company had accounted for the fair value and classification of its EBITDA/Ordinary Share Price Shares or “earnout shares”, (2) in the classification and presentation of deferred tax assets and liabilities, (3) in the classification of its shipping and handling costs, (4) in the presentation of related party revenue on consolidated statements of operations and comprehensive income and adequate identification of certain related parties as such, (5) in the classification of purchases and sales of investments in the consolidated statements of cash flows, (6) in the calculation of diluted earnings per share, (7) in the Company’s conclusion on certain variable interest entities and (8) in the way the Company had accounted for the fair value of the Company’s warrants exercised for ordinary shares during the third and fourth quarter of 2015.

A description of each misstatement or error is provided below and additional detail is provided in other notes to these condensed consolidated financial statements:

(a) Earnout shares - The Company entered into an Agreement and Plan of Reorganization (the “Merger Agreement”) as of August 17, 2013. Pursuant to the Merger Agreement, on the closing date of December 20, 2013, the Company issued 3,000,000 Ordinary Shares (“Earnout Shares”) to be held in escrow and to be released after the closing based on the Company’s achievement of specified share price targets or targets based on Tecnoglass Holding’s net earnings before interest income or expense, income taxes, depreciation, amortization and any expenses arising solely from the merger charged to income (“EBITDA”) in the fiscal years ending December 31, 2014, 2015 or 2016.

The following table sets forth the targets and the number of Earnout Shares issuable upon the achievement of such targets:

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

Prior to December 31, 2015, the earnout shares were accounted for within equity at par value. In accordance with ASC 815 – Derivatives and Hedging, the earnout shares are not considered indexed to the Company’s own stock and therefore should have been accounted for as a liability with fair value changes being recorded in the consolidated statements of operations and comprehensive income, Correction of this error will affect the condensed consolidated financial statements in this Amendment No. 1

(b) Deferred tax assets and liabilities – The Company was presenting deferred tax assets and liabilities on a gross basis on the balance sheet as at December 31, 2014. Per ASC 740 – Income Taxes, for a particular tax-paying component of an entity and within a particular tax jurisdiction, all current deferred tax liabilities and assets shall be offset and presented as a single amount and all noncurrent deferred tax liabilities and assets shall be offset and presented as a single amount. The deferred tax assets and liabilities have been reclassified and presented in current and long-term assets and liabilities in the condensed consolidated balance sheets presented as of September 30, 2015 and December 31, 2014.

Correction of this error will affect the condensed consolidated financial statements in this Amendment No. 1.

(c) Shipping and handling costs – For the year ended December 31, 2015, the Company records and presents shipping and handling costs in selling expenses whereas in prior financial statements these expenses had been partially reported in cost of sales. The amounts of shipping and handling costs have been reclassified in the condensed consolidated statements of operations and comprehensive income for the three- and nine-month periods ended September 30, 2015 and 2014.

Correction of this error will affect the condensed consolidated financial statements in this Amendment No. 1.

(d) Related party revenue –Certain related parties were not adequately identified as such in previous reports and are now being considered in the amounts presented on the Condensed Consolidated Balance Sheet, the Consolidated condensed statement of operations, the Statement of cash flows and the related parties footnote.

(e) Cash flow from investing activities – Cash flows from the sale and purchase of investments were presented on a net basis within cash flow from investing activities amounting to \$126. The Company now presents the sales and purchases of investments on a gross basis within cash flow from investing activities. This did not result in a change in total cash flow from investing activities in the nine-month periods ended September 30, 2015 and 2014.

(f) Earnings per share – In previously filed financial statement for