

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. 2)

(MARK ONE)

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

For the quarterly period ended March 31, 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)

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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. 2 (the “Amendment”) to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (the “Original Filing”) to correct misstatements and errors in the Company’s previously issued financial statements for the three months ended March 31, 2015.

In preparing the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, the Company identified six 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, (5) in the classification of purchases and sales of investments in the consolidated statements of cash flows, and (6) in the Company’s conclusion on certain variable interest entities. 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-month periods ended March 31, 2015 and 2014 are included in this Amendment No. 2 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 MARCH 31, 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)**

	March 31, 2015 (Restated)	December 31, 2014 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,132	\$ 15,930
Trade accounts receivable, net	46,633	44,718
Due from related parties	33,542	28,564
Inventories, net	31,473	28,965
Other current assets	20,416	17,946
Total current assets	\$ 149,196	\$ 136,123
Long term assets:		
Property, plant and equipment, net	\$ 108,237	\$ 103,980
Long term receivables from related parties	3,392	4,220
Other long term assets	5,734	6,200
Total long term assets	117,363	114,400
Total assets	\$ 266,559	\$ 250,523
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 35,328	\$ 32,950
Due to related parties	4,040	1,999
Current portion of customer advances on uncompleted contracts	12,048	5,782
Short-term debt and current portion of long term debt	59,886	54,925
Note payable to shareholder	80	80
Earnout Share Liability	4,650	5,075
Other current liabilities	16,354	11,932
Total current liabilities	\$ 132,386	\$ 112,743

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Long term liabilities:		
Warrant liability	\$ 14,913	\$ 19,991
Earnout Share Liability	22,430	23,986
Customer advances on uncompleted contracts	6,767	8,333
Other long term liabilities	121	-
Long term debt	37,050	39,273
Total Long Term Liabilities	81,281	91,583
Total liabilities	\$ 213,667	\$ 204,326
COMMITMENTS AND CONTINGENCIES		
Shareholders' equity		
Preferred shares, \$0.0001 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at March 31, 2015	\$-	\$-
Ordinary shares, \$0.0001 par value, 100,000,000 shares authorized, 24,801,132 and 24,801,132 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	2	2
Legal Reserves	1,367	1,367
Additional paid-in capital	26,140	26,140
Retained earnings	41,981	30,119
Accumulated other comprehensive income	(16,598)	(11,431)
Total shareholders' equity	52,892	46,197
Total liabilities and shareholders' equity	\$ 266,559	\$ 250,523

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

Tecnoglass Inc. and Subsidiaries**Condensed Statements of Operations and Comprehensive Income****(In thousands, except share and per share data)****(Unaudited)**

	Three months ended March 31,	
	2015	2014
	(Restated)	(Restated)
Operating Revenues:		
External customers	\$ 38,100	\$ 34,858
Related parties	13,943	12,983
Total operating revenues	52,043	47,841
Cost of sales	33,433	32,212
Gross profit	18,610	15,629
Operating expenses	10,608	7,772
Operating income	8,002	7,857
Gain (loss) on change in fair value of Earnout Shares	1,981	(5,311)
Gain (loss) on change in fair value of warrant liability	5,078	(8,880)
Non-operating income	3,725	1,286
Interest expense	(2,152)	(1,973)
Income (Loss) before taxes	16,634	(7,021)
Income tax provision	4,772	2,971
Net income (loss)	\$ 11,862	\$ (9,992)
Comprehensive income:		
Net income (loss)	11,862	(9,992)
Foreign currency translation adjustments	(5,167)	(176)
Total comprehensive income (loss)	\$ 6,695	\$ (10,168)
Basic income (loss) per share	\$ 0.48	\$ (0.41)
Diluted income (loss) per share	\$ 0.42	\$ (0.41)
Basic weighted average common shares outstanding	24,801,132	24,242,315

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Diluted weighted average common shares outstanding	28,114,251	24,242,315
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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)**

	Three Months Ended March	
	31, 2015	2014
	Restated	Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 11,862	\$ (9,992)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for bad debts	-	20
Depreciation and amortization	2,501	1,952
Loss on disposition of assets	(9)	-
Loss on change in fair value of derivative liability	(18)	(67)
(Gain) loss on change in fair value of warrant liability	(5,078)	8,880
(Gain) loss on change in fair value of earnout share liability	(1,981)	5,311
Deferred income taxes	(157)	548
Changes in operating assets and liabilities:		
Trade accounts receivable	(5,099)	(3,792)
Inventories	(4,928)	1,480
Prepaid expenses and other current assets	153	(297)
Other assets	(3,325)	(6,123)
Trade accounts payable	4,398	(7,365)
Customer advances on uncompleted contracts	5,954	1,909
Related parties	(4,397)	(6,220)
Other current liabilities	5,463	2,375
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	5,339	(11,381)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	255	59
Purchase of investments	(403)	(409)
Acquisition of property and equipment	(4,769)	(1,185)
CASH USED IN INVESTING ACTIVITIES	(4,917)	(1,535)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt	22,255	23,229
Proceeds from the sale of common stock	-	1,000
Repayments of debt	(21,767)	(16,530)
Proceeds from merger	-	22,519

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CASH PROVIDED BY FINANCING ACTIVITIES	488	30,218
Effect of exchange rate changes on cash and cash equivalents	292	100
NET INCREASE IN CASH	1,202	17,402
Cash - Beginning of period	15,930	2,866
Cash - End of period	\$ 17,132	\$ 20,268
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 1,385	\$ 1,469
Taxes	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Assets acquired under capital lease	\$ 9,100	\$ 55

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 six non-cash errors in its annual financial statements for the year ended December 31, 2014. The errors, which are also addressed in these amended condensed financial statements as of March 31, 2015, occurred: (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 the identification of certain related parties as such, (5) in the classification of purchases and sales of investments in the consolidated statements of cash flows, and (6) in the Company’s conclusion on certain variable interest entities.

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	<u>Maximum</u>
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. 2.

(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.

Correction of this error will affect the condensed consolidated financial statements in this Amendment No. 2. 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 March 31, 2015 and December 31, 2014.

(c) Shipping and handling costs – For the year ended December 31, 2015, the Company recorded and presents shipping and handling costs in selling expenses whereas in prior financial statements these expenses had been partially reported in cost of sales.

Correction of this error will affect the condensed consolidated financial statements in this Amendment No. 2. The amounts of shipping and handling costs have been reclassified and are presented as operating expenses in the condensed consolidated statements of operations and comprehensive income for the three-month periods ended March 31, 2015 and 2014.

(d) Related party revenue – In accordance with Rule 4-08 (k) of Regulation S-X related party revenue should be presented in the statements of operations and other comprehensive income. These amounts were included as part of total Operating Revenues in previous financial statements for the three-month periods ended March 31, 2015 and 2014. Additionally, the Company did not adequately identify certain related parties as such in previous filings and is correcting presentation to include disclosure of transactions with all related parties.

Correction of this error will affect the condensed consolidated financial statements in this Amendment No. 2. Related party revenues are now presented separately in the condensed consolidated statements of operations and comprehensive income.

(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. 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 three-month periods ended March 31, 2015 and 2014.

(f) Variable Interest Entities - The Company's analysis that was performed previously for the preparation of the financial statements as of December 31, 2014 concluded that these entities were VIEs. However, further analysis of the facts and circumstances surrounding the Company's accounting of ESW LLC and VS performed during 2015 determined that the prior analysis was in error.

The correction resulted in no changes to the financial statements for the three- and nine- month periods ended September 30, 2015, other than associated related party footnote disclosures.

The following table includes the financial statements as originally reported and as adjusted and takes into account the following adjustments:

Condensed Consolidated Balance Sheets

	March 31, 2015			December 31, 2014			
	As reported	Adjustment	Restated	As reported	Adjustment	Restated	Reference
ASSETS							
Current assets:							
Cash and cash equivalents	17,132		17,132	15,930		15,930	
Trade accounts receivable, net	47,504	(871)	46,633	44,955	(237)	44,718	d
Due from related parties	32,671	871	33,542	28,327	237	28,564	d
Inventories, net	31,473		31,473	28,965		28,965	
Other current assets	25,653	(5,237)	20,416	23,319	(5,373)	17,946	b, d
Total current assets	154,433	(5,237)	149,196	141,496	(5,373)	136,123	
Long term assets:							
Property, plant and equipment, net	108,237		108,237	103,980		103,980	
Long term receivables from related parties	3,392		3,392	4,220		4,220	
Other long term assets	5,734		5,734	6,195	5		