

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, 2017	December 31, 2016
ASSETS		
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
LIABILITIES AND SHAREHOLDERS' EQUITY		
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)**

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
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
Gross Profit	22,544	27,990	44,796	52,680
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)
Operating income	5,416	12,728	12,278	24,476
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	-
Net (loss) income attributable to parent	\$ (3,560)	\$ 14,679	\$ (2,541)	\$ 29,035
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
Total comprehensive (loss) income	\$ (8,810)	\$ 18,168	\$ (2,990)	\$ 34,266
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
Changes in operating assets and liabilities:		
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
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	12,194	(2,619)
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)

CASH USED IN INVESTING ACTIVITIES	(12,537)	(27,461)
CASH FLOWS FROM FINANCING ACTIVITIES		
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)
CASH PROVIDED BY FINANCING ACTIVITIES	17,658	44,868
Effect of exchange rate changes on cash and cash equivalents	(551)	(334)
NET (DECREASE) INCREASE IN CASH	16,764	14,454
CASH - Beginning of period	26,918	22,671
CASH - End of period	43,682	37,125
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	6,864	4,063
Income Tax	15,168	13,677
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
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, \$0.0001 Par Value	Additional Paid in Capital	Legal Reserve	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity Attributable to Parent	Non-controlling Interest	Total Shareholders' Equity
Balance at December 31, 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 compensation	-	- 8	-	-	-	8	-	8
Non-controlling interest	-	-	-	-	-	-	1,141	1141
Foreign currency translation	-	-	-	-	(449)	(449)	-	(449)
Net Income	-	-	-	(2,541)	-	(2,541)	72	(2,469)
Balance at June 30, 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
Denominator	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 Purchase Price Allocation	Measurement Period Adjustments	Adjusted Purchase Price 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.

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

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 1st, 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. Amort.	Net	Gross	Acc. 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	-	-	-
	\$					