

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended March 31, 2020

OR

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

Commission File Number 001-37839



TPI Composites, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-1590775
(I.R.S. Employer
Identification Number)

8501 N. Scottsdale Rd.
Gainey Center II, Suite 100
Scottsdale, AZ 85253

(480) 305-8910
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--------------------------------|-------------------|---|
| Common Stock, par value \$0.01 | TPIC | NASDAQ Global Market |

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 preceding 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 every Interactive Data File required to be submitted 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 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 | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| Emerging growth company | <input type="checkbox"/> | | |

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

As of April 30, 2020, there were 35,263,082 shares of common stock outstanding.

TPI COMPOSITES, INC. AND SUBSIDIARIES

INDEX

| | Page |
|---|-------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| ITEM 1. | 5 |
| <u>Condensed Consolidated Financial Statements (Unaudited)</u> | |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2020 and December 31, 2019</u> | 5 |
| <u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2020 and 2019</u> | 6 |
| <u>Condensed Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2020 and 2019</u> | 7 |
| <u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2020</u> | 8 |
| <u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2020 and 2019</u> | 9 |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u> | 10 |
| ITEM 2. | 27 |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | |
| ITEM 3. | 40 |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | |
| ITEM 4. | 41 |
| <u>Controls and Procedures</u> | |
| <u>PART II. OTHER INFORMATION</u> | |
| ITEM 1. | 42 |
| <u>Legal Proceedings</u> | |
| ITEM 1A. | 42 |
| <u>Risk Factors</u> | |
| ITEM 2. | 42 |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | |
| ITEM 3. | 42 |
| <u>Defaults Upon Senior Securities</u> | |
| ITEM 4. | 43 |
| <u>Mine Safety Disclosures</u> | |
| ITEM 5. | 43 |
| <u>Other Information</u> | |
| ITEM 6. | 44 |
| <u>Exhibits</u> | |
| <u>SIGNATURES</u> | 45 |

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities law. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. In many cases, you can identify forward-looking statements by terms such as “may,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar words. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- the potential impact of the Coronavirus on our business and results of operations;
- growth of the wind energy market and our addressable market;
- the potential impact of the increasing prevalence of auction-based tenders in the wind energy market and increased competition from solar energy on our gross margins and overall financial performance;
- our future financial performance, including our net sales, cost of goods sold, gross profit or gross margin, operating expenses, ability to generate positive cash flow, and ability to achieve or maintain profitability;
- changes in domestic or international government or regulatory policy, including without limitation, changes in trade policy;
- the sufficiency of our cash and cash equivalents to meet our liquidity needs;
- our ability to attract and retain customers for our products, and to optimize product pricing;
- our ability to effectively manage our growth strategy and future expenses, including our startup and transition costs;
- competition from other wind blade and wind blade turbine manufacturers;
- the discovery of defects in our products and our ability to estimate the future cost of warranty campaigns and product recalls;
- our ability to successfully expand in our existing wind energy markets and into new international wind energy markets, including our ability to expand our field service inspection and repair services in wind energy markets;
- our ability to successfully open new manufacturing facilities and expand existing facilities on time and on budget;
- the impact of the accelerated pace of new product and wind blade model introductions on our business and our results of operations;
- our ability to successfully expand our transportation business and execute upon our strategy of entering new markets outside of wind energy;
- worldwide economic conditions and their impact on customer demand;
- our ability to maintain, protect and enhance our intellectual property;
- our ability to comply with existing, modified or new laws and regulations applying to our business, including the imposition of new taxes, duties or similar assessments on our products;
- the attraction and retention of qualified employees and key personnel;
- our ability to maintain good working relationships with our employees, and avoid labor disruptions, strikes and other disputes with labor unions that represent certain of our employees;
- our ability to procure adequate supplies of raw materials and components to fulfill our wind blade volume commitments to our customers; and
- the potential impact of one or more of our customers becoming bankrupt or insolvent, or experiencing other financial problems.

These forward-looking statements are only predictions. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other important factors that may cause our actual results, levels of activity, performance or achievements to materially differ from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. We have described in the “Risk Factors” section of our Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (SEC) on March 2, 2020 the principal risks and uncertainties that

we believe could cause actual results to differ from these forward-looking statements. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as guarantees of future events.

The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we undertake no obligation to update any forward-looking statement to reflect events or developments after the date on which the statement is made or to reflect the occurrence of unanticipated events except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date after the date of this Quarterly Report. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

PART I—FINANCIAL INFORMATION

ITEM I. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TPI COMPOSITES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(In thousands, except par value data)

| | March 31, 2020 | December 31, 2019 |
|---|-------------------|----------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 109,473 | \$ 70,282 |
| Restricted cash | 662 | 992 |
| Accounts receivable | 127,354 | 184,012 |
| Contract assets | 192,109 | 166,515 |
| Prepaid expenses | 14,118 | 10,047 |
| Other current assets | 24,448 | 29,843 |
| Inventories | 9,904 | 6,731 |
| Total current assets | 478,068 | 468,422 |
| Property, plant, and equipment, net | 217,568 | 205,007 |
| Operating lease right of use assets | 170,381 | 122,351 |
| Other noncurrent assets | 49,387 | 30,897 |
| Total assets | \$ 915,404 | \$ 826,677 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 275,695 | \$ 293,104 |
| Accrued warranty | 51,528 | 47,639 |
| Current maturities of long-term debt | 19,610 | 13,501 |
| Current operating lease liabilities | 17,435 | 16,629 |
| Contract liabilities | 2,571 | 3,008 |
| Total current liabilities | 366,839 | 373,881 |
| Long-term debt, net of debt issuance costs and current maturities | 186,564 | 127,888 |
| Noncurrent operating lease liabilities | 163,125 | 113,883 |
| Other noncurrent liabilities | 7,838 | 5,975 |
| Total liabilities | 724,366 | 621,627 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' equity: | | |
| Common shares, \$0.01 par value, 100,000 shares authorized, 35,435 shares issued and 35,263 shares outstanding at March 31, 2020 and 100,000 shares authorized, 35,326 shares issued and 35,181 shares outstanding at December 31, 2019 | 354 | 353 |
| Paid-in capital | 326,737 | 322,906 |
| Accumulated other comprehensive loss | (40,505) | (23,612) |
| Accumulated deficit | (91,181) | (90,689) |
| Treasury stock, at cost, 172 shares at March 31, 2020 and 145 shares at December 31, 2019 | (4,367) | (3,908) |
| Total stockholders' equity | 191,038 | 205,050 |
| Total liabilities and stockholders' equity | \$ 915,404 | \$ 826,677 |

See accompanying notes to unaudited condensed consolidated financial statements.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(In thousands, except per share data)

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2020 | 2019 |
| | (Unaudited) | |
| Net sales | \$ 356,636 | \$ 299,780 |
| Cost of sales | 348,475 | 283,038 |
| Startup and transition costs | 12,034 | 18,178 |
| Total cost of goods sold | 360,509 | 301,216 |
| Gross loss | (3,873) | (1,436) |
| General and administrative expenses | 9,496 | 7,985 |
| Realized loss on sale of assets and asset impairments | 1,918 | 2,235 |
| Restructuring charges, net | 117 | — |
| Loss from operations | (15,404) | (11,656) |
| Other income (expense): | | |
| Interest income | 32 | 51 |
| Interest expense | (1,803) | (1,999) |
| Realized gain (loss) on foreign currency remeasurement | 960 | (3,802) |
| Miscellaneous income | 695 | 702 |
| Total other expense | (116) | (5,048) |
| Loss before income taxes | (15,520) | (16,704) |
| Income tax benefit | 15,028 | 4,600 |
| Net loss | \$ (492) | \$ (12,104) |
| Weighted-average common shares outstanding: | | |
| Basic | 35,213 | 34,906 |
| Diluted | 35,213 | 34,906 |
| Net loss per common share: | | |
| Basic | \$ (0.01) | \$ (0.35) |
| Diluted | \$ (0.01) | \$ (0.35) |

See accompanying notes to unaudited condensed consolidated financial statements.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Loss
(In thousands)

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2020 | 2019 |
| | (Unaudited) | |
| Net loss | \$ (492) | \$ (12,104) |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | (9,224) | 1,333 |
| Unrealized loss on hedging derivatives, net of taxes of \$2,039 and \$481, respectively | (7,669) | (1,810) |
| Comprehensive loss | \$ (17,385) | \$ (12,581) |

See accompanying notes to unaudited condensed consolidated financial statements.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Changes in Stockholders' Equity
(In thousands)

| | Common | | Paid-in capital | Accumulated other comprehensive loss | Accumulated deficit | Treasury stock, at cost | Total stockholders' equity |
|---|---------------|---------------|-------------------|--------------------------------------|---------------------|-------------------------|----------------------------|
| | Shares | Amount | | (Unaudited) | | | |
| Balance at December 31, 2019 | 35,326 | \$ 353 | \$ 322,906 | \$ (23,612) | \$ (90,689) | \$ (3,908) | \$ 205,050 |
| Net loss | — | — | — | — | (492) | — | (492) |
| Share-based compensation expense | — | — | 2,970 | — | — | — | 2,970 |
| Issuances under share-based compensation plan | 109 | 1 | 861 | — | — | — | 862 |
| Common stock repurchased for treasury | — | — | — | — | — | (459) | (459) |
| Other comprehensive loss | — | — | — | (16,893) | — | — | (16,893) |
| Balance at March 31, 2020 | <u>35,435</u> | <u>\$ 354</u> | <u>\$ 326,737</u> | <u>\$ (40,505)</u> | <u>\$ (91,181)</u> | <u>\$ (4,367)</u> | <u>\$ 191,038</u> |

See accompanying notes to unaudited condensed consolidated financial statements.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|------------------|
| | 2020 | 2019 |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (492) | \$ (12,104) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 11,028 | 10,659 |
| Realized loss on sale of assets and asset impairments | 1,918 | 2,235 |
| Restructuring charges, net | 117 | — |
| Share-based compensation expense | 2,942 | 985 |
| Amortization of debt issuance costs | 56 | 51 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 50,328 | 8,489 |
| Contract assets and liabilities | (32,574) | (15,899) |
| Operating lease right of use assets and operating lease liabilities | 2,018 | 4,169 |
| Inventories | (3,515) | (419) |
| Prepaid expenses | (4,558) | (4,171) |
| Other current assets | 4,552 | (13,046) |
| Other noncurrent assets | (17,445) | (14,052) |
| Accounts payable and accrued expenses | (17,557) | 17,782 |
| Accrued warranty | 3,889 | 2,768 |
| Other noncurrent liabilities | 1,861 | 462 |
| Net cash provided by (used in) operating activities | <u>2,568</u> | <u>(12,091)</u> |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (26,983) | (18,709) |
| Net cash used in investing activities | <u>(26,983)</u> | <u>(18,709)</u> |
| Cash flows from financing activities: | | |
| Proceeds from revolving loans | 50,000 | 6,000 |
| Net proceeds (repayments) of accounts receivable financing | (101) | 13,208 |
| Proceeds from working capital loans | — | 2,228 |
| Principal repayments of finance leases | (1,492) | (2,929) |
| Net proceeds (repayments) of other debt | 16,505 | (1,445) |
| Debt issuance costs | (183) | — |
| Proceeds from exercise of stock options | 812 | 4,572 |
| Repurchase of common stock including shares withheld in lieu of income taxes | (459) | (559) |
| Net cash provided by financing activities | <u>65,082</u> | <u>21,075</u> |
| Impact of foreign exchange rates on cash, cash equivalents and restricted cash | (1,806) | 993 |
| Net change in cash, cash equivalents and restricted cash | 38,861 | (8,732) |
| Cash, cash equivalents and restricted cash, beginning of year | 71,749 | 89,376 |
| Cash, cash equivalents and restricted cash, end of period | <u>\$ 110,610</u> | <u>\$ 80,644</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 1,773 | \$ 1,940 |
| Cash paid for income taxes, net | 3,414 | 4,781 |
| Supplemental disclosures of noncash investing and financing activities: | | |
| Accrued capital expenditures in accounts payable | 14,669 | 6,409 |

See accompanying notes to unaudited condensed consolidated financial statements.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Summary of Operations and Significant Accounting Policies

Description of Business

TPI Composites, Inc. is the holding company that conducts substantially all of its business operations through its direct and indirect subsidiaries (collectively, the Company). The Company was founded in 1968 and has been producing composite wind blades since 2001. The Company's knowledge and experience of composite materials and manufacturing originates with its predecessor company, Tillotson Pearson Inc., a leading manufacturer of high-performance sail and powerboats along with a wide range of composite structures used in other industrial applications. Following the separation from the boat building business in 2004, the Company reorganized in Delaware as LCSH Holding, Inc. and then changed its corporate name to TPI Composites, Inc. in 2008. The Company is headquartered in Scottsdale, Arizona and has expanded its global footprint to include domestic facilities in Newton, Iowa; Warren, Rhode Island and Santa Teresa, New Mexico and international facilities in Dafeng, China; Taicang Port, China; Yangzhou, China; Juárez, Mexico; Matamoros, Mexico; Izmir, Turkey; Chennai, India; Kolding, Denmark and Berlin, Germany.

References to TPI Composites, Inc, the "Company," "we," "us" or "our" in these notes refer to TPI Composites, Inc. and its consolidated subsidiaries.

Basis of Presentation

We divide our business operations into four geographic operating segments—(1) the United States (U.S.), (2) Asia, (3) Mexico and (4) Europe, the Middle East, Africa and India (EMEAI) as follows:

- Our U.S. segment includes (1) the manufacturing of wind blades at our Newton, Iowa plant, (2) the manufacturing of precision molding and assembly systems used to manufacture wind blades at our Warren, Rhode Island facility, (3) the manufacturing of composite solutions for the transportation industry, which we also conduct at our Rhode Island facility, (4) wind blade inspection and repair services in North America, (5) our advanced engineering center in Kolding, Denmark, which provides technical and engineering resources to our manufacturing facilities, (6) our engineering center in Berlin, Germany which we purchased in July 2019 and (7) our corporate headquarters, the costs of which are included in general and administrative expenses.
- Our Asia segment includes (1) the manufacturing of wind blades at our facilities in Dafeng, China and Yangzhou, China, the latter of which commenced operations in March 2019, (2) the manufacturing of precision molding and assembly systems at our Taicang Port, China facility and (3) wind blade inspection and repair services.
- Our Mexico segment manufactures wind blades from three facilities in Juárez, Mexico and a facility in Matamoros, Mexico. In addition, we have a facility which manufactures precision molding and assembly systems and composite solutions for the transportation industry in Juárez, Mexico and we commenced operations at this facility in March 2019. This segment also performs wind blade inspection and repair services.
- Our EMEAI segment manufactures wind blades from two facilities in Izmir, Turkey and also performs wind blade inspection and repair services. In February 2019, we entered into a new lease agreement with a third party for a new manufacturing facility that was built in Chennai, India and we commenced operations at this facility in the first quarter of 2020.

The accompanying condensed consolidated financial statements include the accounts of TPI Composites, Inc. and all of our majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Certain prior period amounts in the condensed consolidated financial statements and accompanying notes have been reclassified to conform to the current period's presentation.

The condensed consolidated financial statements included herein have been prepared by us without audit, pursuant to the rules and regulations of the SEC and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 included in our Annual Report on Form 10-K. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted, as permitted by the SEC, although we believe the disclosures that are made are adequate to make the information presented herein not misleading. The accompanying condensed consolidated financial statements reflect, in the opinion of our management, all normal recurring adjustments necessary to present fairly our financial position at March 31, 2020, and the results of our operations, comprehensive loss and cash flows for the periods presented. Interim results for the three months ended March 31, 2020 are not necessarily indicative of the results to be expected for the full years.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Recently Issued Accounting Pronouncements

Accounting Pronouncements Adopted in 2020

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new standard is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held at each reporting date.

We adopted this standard on January 1, 2020 and it did not have a material effect on our condensed consolidated financial statements.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements in Topic 820.

We adopted this standard on January 1, 2020 and it did not have a material effect on our condensed consolidated financial statements.

Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which primarily removes specific exemptions to the general principles in Topic 740 in GAAP and improves the financial statement preparers' application of income tax-related guidance and simplifies GAAP.

We adopted this standard on January 1, 2020 and it did not have a material effect on our condensed consolidated financial statements.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022.

We are currently evaluating our contracts and the optional expedients provided by the new standard.

Significant Accounting Policies

Revenue Recognition

The majority of our revenue is generated from long-term contracts associated with manufacturing of wind blades and related services. We account for a long-term contract when it has the approval from both parties, the rights of the parties are identified, payment terms are established, the contract has commercial substance and the collectability of consideration is probable.

To determine the proper revenue recognition method for each long-term contract, we evaluate whether the original contract should be accounted for as one or more performance obligations. This evaluation requires judgment and the decisions reached could change the amount of revenue and gross profit recorded in a given period. As most of our contracts contain multiple performance obligations, we allocate the total transaction price to each performance obligation based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. Our manufacturing services are customer specific and involve production of items that cannot be sold to other customers due to the customers' protected intellectual property; therefore, we allocate the total transaction price under our contracts with multiple performance obligations using the contractually stated prices, as these prices represent the relative standalone selling price based on an expected cost plus margin model.

Revenue is primarily recognized over time as we have an enforceable right to payment upon termination and we may not use or sell the product to fulfill other customers' contracts. In addition, the customer does not have return or refund rights for items produced that conform to the specifications included in the contract. Because control transfers over time, revenue is recognized based on the

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

extent of progress towards the completion of the performance obligation. We use the cost-to-cost input measure of progress for our contracts as this method provides the best representation of the production progress towards satisfaction of the performance obligation as the materials are distinct to the product being manufactured because of customer specifications provided for in the contract, the costs incurred are proportional to the progress towards completion of the product, and the products do not involve significant pre-fabricated component parts. Under the cost-to-cost method, progress and the related revenue recognition is determined by a ratio of direct costs incurred to date in fulfillment of the performance obligation to the total estimated direct costs required to complete the performance obligation.

Determining the revenue to be recognized for services performed under our manufacturing contracts involves judgments and estimates relating to the total consideration to be received and the expected direct costs to complete the performance obligation. As such, revenue recognized reflects our estimates of future contract volumes and the direct costs to complete the performance obligation. The judgments and estimates relating to the total consideration to be received include the amount of variable consideration as our contracts typically provide the customer with a range of production output options from guaranteed minimum volume obligations to the production capacity of the facility, and customers will provide periodic non-cancellable commitments for the number of wind blades to be produced over the term of the agreement. The total consideration also includes payments expected to be received associated with wind blade model transitions. We use historical experience, customer commitments and forecasted future production based on the capacity of the plant to estimate the total revenue to be received to complete the performance obligation. In addition, the amount of revenue per unit produced may vary based on the costs of production of the wind blades as we may be able to change the price per unit based on changes in the cost of production. Further, some of our contracts provide opportunities for us to share in labor and material cost savings as well as absorb some additional costs as an incentive for more efficient production, both of which impact the margin realized on the contract and ultimately the total amount of revenue to be recognized. Additionally, certain of our customer contracts provide for us to make concessions, such as in the form of liquidated damages, for missed production deadlines which are paid over a negotiated timeline.

We estimate variable consideration at the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information available to us at the time of the estimate and may materially change as additional information becomes known.

Our contracts may be modified to account for changes in specifications of products and changing requirements. If the contract modifications are for goods or services that are not distinct from the existing contract, they are accounted for as if they were part of the original contract. The effect of a contract modification on the transaction price and the measure of progress for the performance obligation to which it relates is recognized as an adjustment to revenue on a cumulative catch-up basis. If contract modifications are for goods and services that are distinct from the existing contract and increases the amount of consideration reflecting the standalone sale price of the additional goods or services, then the contract modification is accounted for as a separate contract and is evaluated for one or more performance obligations.

Each reporting period, we evaluate the progress towards satisfaction of each performance obligation based on any contract modifications that have occurred, cost incurred to date, and an estimate of the expected future revenue and costs to be incurred to complete the performance obligation. Based on this analysis, any changes in estimates of revenue, cost of sales, contract assets and liabilities and the related impact to operating income are recognized on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on the percentage of completion of the performance obligation.

Wind blade pricing is based on annual commitments of volume as established in our customer contracts and orders less than committed volume may result in a higher price per wind blade to our customers. Orders in excess of annual commitments may result in discounts to our customers from the contracted price for the committed volume. Our customers typically provide periodic purchase orders with the price per wind blade given the current cost of the bill of materials, labor requirements and volume desired. We record an allowance for expected utilization of early payment discounts which are reported as a reduction of the related revenue.

Precision molding and assembly systems included in a customer's contract are based upon the specific engineering requirements and design determined by the customer and are specific to the wind blade design and function desired. From the customer's engineering specifications, a job cost estimate is developed along with a production plan, and the desired margin is applied based on the location the work is to be performed and complexity of the customer's design. Precision molding and assembly systems are generally built to produce wind blades which may be manufactured by us in production runs specified in the customer contract.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Contract assets primarily relate to our rights to consideration for work completed but not billed at the reporting date on manufacturing services contracts. The contract assets are transferred to accounts receivable when the rights become unconditional, which generally occurs when customers are invoiced upon the determination that a product conforms to the contract specifications and invoices are due based on each customer's negotiated payment terms, which, when factoring in supply chain financing arrangements, range from 5 to 25 days. We apply the practical expedient that allows us to exclude payment terms under one year from the transfer of a promised good or service from consideration of a significant financing component in its contracts. With regards to the production of precision molding and assembly systems, our contracts generally call for progress payments to be made in advance of production. Generally, payment is made at certain percentage of completion milestones with the final payment due upon delivery to the manufacturing facility. These progress payments are recorded within contract liabilities as current liabilities in the condensed consolidated balance sheets and are reduced as we record revenue over time. We evaluate indications that a customer may not be able to meet the obligations under our long-term supply agreements to determine if an account receivable or contract asset may be impaired.

Our customers may request, in situations where they do not have space available to receive products or do not want to take possession of products immediately for other reasons, that their finished products be stored by us in one of our facilities. Most of our contracts provide for a limited number of wind blades to be stored during the period of the contract with any additional wind blades stored subject to additional storage fees, which are included in the wind blade product revenue.

Revenue related to non-recurring engineering and freight services provided under our customer contracts is recognized at a point in time following the transfer of control of the promised services to the customer. Customers usually pay the carrier directly for the cost of shipping associated with items produced. When we pay the shipping costs, we apply the practical expedient that allows us to account for shipping and handling as a fulfillment costs and include the revenue in the associated performance obligation and the costs are included in cost of goods sold.

Taxes assessed by a governmental authority that are both imposed on and concurrent with specific revenue-producing transactions, that are collected by us from a customer, are excluded from revenue.

Warranty Expense

We provide a limited warranty for our wind blades and related precision molding and assembly systems, including materials and workmanship, with terms and conditions that vary depending on the product sold, generally for periods that range from two to five years. We also provide a limited warranty for our transportation products, including materials and workmanship, with terms and conditions that vary depending on the product sold, generally for a period of approximately two years. Warranty expense is recorded based upon estimates of future repairs using a probability-based methodology that considers previous warranty claims, identified quality issues and industry practices. Once the warranty period has expired, any remaining unused warranty accrual for the specific products is generally reversed against the current year warranty expense amount.

Warranty accrual at March 31 consisted of the following:

| | <u>2020</u> <u>(in thousands)</u> |
|--|--------------------------------------|
| Warranty accrual at beginning of year | \$ 47,639 |
| Accrual during the period | 3,865 |
| Cost of warranty services provided during the period | (3,215) |
| Changes in estimate for pre-existing warranties, including expirations | 3,239 |
| Warranty accrual at end of period | <u>\$ 51,528</u> |

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right of use (ROU) assets, current operating lease liabilities, and noncurrent operating lease liabilities in the condensed consolidated balance sheets. Finance leases are included in property, plant and equipment, current maturities of long-term debt, and long-term debt, net of debt issuance costs and current maturities in the condensed consolidated balance sheets.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. Variable payments are not included in ROU assets or lease liabilities and can vary from period to period based on asset usage or our proportionate share of common costs. The implicit rate within our leases is generally not determinable and, therefore, the incremental borrowing rate at lease commencement is utilized to determine the present value of lease payments. We estimate our incremental borrowing rate based on third-party lender quotes to obtain secured debt in a like currency for a similar asset over a timeframe similar to the term of the lease. The ROU asset also includes any lease prepayments made and any initial direct costs incurred and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. We have elected not to recognize ROU assets or lease liabilities for leases with a term of 12 months or less.

We have lease agreements with lease and non-lease components. We have elected to apply the practical expedient to account for these components as a single lease component for all classes of underlying assets.

Restructuring Charges

Our restructuring charges consist of employee severance, one-time termination benefits and ongoing benefits related to the reduction of our workforce and other costs associated with exit activities, which may include costs related to leased facilities to be abandoned and facility and employee relocation costs. Liabilities for costs associated with a restructuring activity are measured at fair value and are recognized when the liability is incurred, except for one-time termination benefits. One-time termination benefits are expensed at the date the entity notifies the employee, unless the employee must provide future service, in which case the benefits are expensed ratably over the future service period. Ongoing benefits are expensed when restructuring activities are probable and the benefit amounts are estimable.

Treasury Stock

Common stock purchased for treasury is recorded at historical cost. Transactions in treasury shares relate to share-based compensation plans and are recorded at weighted-average cost.

Net Income (Loss) Per Common Share Calculation

Basic net income (loss) per common share is computed by dividing the net income (loss) by the weighted-average number of common shares outstanding during a period. Diluted net income per common share is computed by giving effect to all potentially dilutive securities, unless there is a net loss for the period. In computing diluted net income per common share, we use the treasury stock method. The table below reflects the calculation of the weighted-average number of common shares outstanding, using the treasury stock method, used in computing basic and diluted net income (loss) per common share:

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2020 | 2019 |
| | (in thousands) | |
| Basic weighted-average shares outstanding | 35,213 | 34,906 |
| Effect of dilutive awards | — | — |
| Diluted weighted-average shares outstanding | 35,213 | 34,906 |

Share-based compensation awards of approximately 66,000 and 100,000 shares were excluded from the computation of net loss per share for the three months ended March 31, 2020 and 2019, respectively, because their effect would be anti-dilutive. Further, since there were net losses for the three months ended March 31, 2020 and 2019, approximately 890,000 and 1,580,000 potentially dilutive shares were excluded from the calculation.

Financial Instruments

Interest Rate Swap

We use interest rate swap contracts to mitigate our exposure to interest rate fluctuations associated with our credit agreement (the Credit Agreement) that we entered into in April 2018. We do not use such swap contracts for speculative or trading purposes.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

To partially offset the variability of future interest payments on the Credit Agreement arising from changes in the London Interbank Offered Rate (LIBOR), in April 2018, we entered into an interest rate swap agreement with a financial institution for a notional amount of \$75.0 million with an expiration date of April 2023. This interest rate swap effectively hedges \$75.0 million of the future variable rate LIBOR interest expense to a fixed rate interest expense. The derivative instrument qualified for accounting as a cash flow hedge in accordance with FASB Accounting Standard Codification (ASC) Topic 815, *Derivatives and Hedging*, and we designated it as such.

The settlement value of the interest rate swap is \$5.3 million as of March 31, 2020 and is included in other noncurrent liabilities in the condensed consolidated balance sheet. The unrealized loss on the swap of \$4.2 million, net of tax, as of March 31, 2020 is included in accumulated other comprehensive loss in the condensed consolidated balance sheet. The settlement value of the interest rate swap was \$2.7 million as of December 31, 2019 and was included in other noncurrent liabilities in the condensed consolidated balance sheet. The unrealized loss on the swap of \$2.2 million, net of tax, is included in accumulated other comprehensive loss in the condensed consolidated balance sheet.

Foreign Exchange Forward Contracts

We use foreign exchange forward contracts to mitigate our exposure to fluctuations in exchange rates between the functional currencies of our subsidiaries and the other currencies in which they transact. In September 2019 we entered into the first of these foreign exchange forward contracts. We do not use such forward contracts for speculative or trading purposes.

We expect certain of our subsidiaries to have future cash flows that will be denominated in currencies other than the subsidiaries' functional currencies. Changes in the exchange rates between the functional currencies of our subsidiaries and the other currencies in which they transact will cause fluctuations in the cash flows we expect to receive or pay when these cash flows are realized or settled. Accordingly, we enter into foreign exchange forward contracts to hedge a portion of these forecasted cash flows. As of March 31, 2020, these foreign exchange forward contracts hedged our forecasted cash flows for periods up to nine months. These foreign exchange forward contracts qualified for accounting as cash flow hedges in accordance with ASC Topic 815, and we designated them as such.

As of March 31, 2020, the notional values associated with our foreign exchange forward contracts qualifying as cash flow hedges were 1.2 billion Mexican Peso. The fair value of the foreign exchange forward contracts is \$6.5 million as of March 31, 2020 and is included in accounts payable and accrued expense in the condensed consolidated balance sheet. The unrealized loss on the foreign exchange forward contracts of \$5.1 million, net of tax, as of March 31, 2020 is included in accumulated other comprehensive loss in the condensed consolidated balance sheet.

All of our derivate assets and liabilities measured at fair value are classified as Level 2 within the fair value hierarchy.

Restricted Cash

We provide for cash deposits for letters of guarantee used for customs clearance related to our China locations which are reported as restricted cash in our condensed consolidated balance sheets. We also maintain a long-term deposit in interest bearing accounts, related to fully cash-collateralized letters of credit in connection with an equipment lessor in Iowa which is reported within other noncurrent assets in our condensed consolidated balance sheets. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets which total the same such amounts in the condensed consolidated statements of cash flows:

| | March 31, 2020 | December 31, 2019 | March 31, 2019 | December 31, 2018 |
|---|-------------------|----------------------|-------------------|----------------------|
| | (in thousands) | | | |
| Cash and cash equivalents | \$ 109,473 | \$ 70,282 | \$ 78,319 | \$ 85,346 |
| Restricted cash | 662 | 992 | 1,850 | 3,555 |
| Restricted cash included within other noncurrent assets | 475 | 475 | 475 | 475 |
| Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows | <u>\$ 110,610</u> | <u>\$ 71,749</u> | <u>\$ 80,644</u> | <u>\$ 89,376</u> |

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Other Current Assets

Other current assets primarily include refundable value-added taxes and deposits. As of March 31, 2020, we had \$21.9 million of refundable value-added taxes and \$2.3 million of deposits. As of December 31, 2019, we had \$22.7 million of refundable value-added taxes and \$6.1 million of deposits.

Use of Estimates

The preparation of these condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Revenue From Contracts with Customers

The following tables represents the disaggregation of our net sales revenue by product for each of our reportable segments:

| | Three Months Ended March 31, 2020 | | | | |
|--|-----------------------------------|------------------|-------------------|------------------|-------------------|
| | U.S. | Asia | Mexico | EMEA | Total |
| | (in thousands) | | | | |
| Wind blade sales | \$ 35,933 | \$ 85,876 | \$ 115,186 | \$ 99,342 | \$ 336,337 |
| Precision molding and assembly systems sales | — | 5,061 | 1,702 | — | 6,763 |
| Transportation sales | 6,679 | — | 210 | — | 6,889 |
| Other sales | 4,819 | 200 | 1,152 | 476 | 6,647 |
| Total net sales | \$ 47,431 | \$ 91,137 | \$ 118,250 | \$ 99,818 | \$ 356,636 |

| | Three Months Ended March 31, 2019 | | | | |
|--|-----------------------------------|------------------|------------------|-------------------|-------------------|
| | U.S. | Asia | Mexico | EMEA | Total |
| | (in thousands) | | | | |
| Wind blade sales | \$ 31,891 | \$ 62,128 | \$ 79,038 | \$ 103,893 | \$ 276,950 |
| Precision molding and assembly systems sales | 144 | 6,215 | 4,849 | — | 11,208 |
| Transportation sales | 6,216 | — | — | — | 6,216 |
| Other sales | 3,377 | 375 | 778 | 876 | 5,406 |
| Total net sales | \$ 41,628 | \$ 68,718 | \$ 84,665 | \$ 104,769 | \$ 299,780 |

In addition, most of our net sales are made directly to our customers, primarily large multi-national wind turbine manufacturers, under our long-term contracts which are typically five years in length.

Contract Assets and Liabilities

Contract assets consist of the amount of revenue recognized over time for performance obligations in production where control has transferred to the customer but the contract does not yet allow for the customer to be billed. Typically, customers are billed when the product finishes production and meets the technical specifications contained in the contract. The contract assets are recorded as current assets in the condensed consolidated balance sheets. Contract liabilities consist of advance payments in excess of revenue earned. These amounts were historically recorded as customer deposits which usually relate to progress payments received as precision molding and assembly systems were being manufactured. The contract liabilities are recorded as current liabilities in the condensed consolidated balance sheets and are reduced as we record revenue over time.

TPI COMPOSITES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

These contract assets and liabilities are reported on the condensed consolidated balance sheets net on a contract-by-contract basis at the end of each reporting period, as demonstrated in the table below.

Contract assets and contract liabilities consisted of the following:

| | March 31, 2020 | December 31, 2019 | \$ Change |
|--|-------------------|----------------------|------------------|
| | (in thousands) | | |
| Gross contract assets | \$ 195,366 | \$ 170,973 | \$ 24,393 |
| Less: reclassification from contract liabilities | (3,257) | (4,458) | 1,201 |
| Contract assets | \$ 192,109 | \$ 166,515 | \$ 25,594 |
| | (in thousands) | | |
| | March 31, 2020 | December 31, 2019 | \$ Change |
| Gross contract liabilities | \$ 5,828 | \$ 7,466 | \$ (1,638) |
| Less: reclassification to contract assets | (3,257) | (4,458) | 1,201 |
| Contract liabilities | \$ 2,571 | \$ 3,008 | \$ (437) |

Contract assets increased by \$25.6 million from December 31, 2019 to March 31, 2020 due to incremental unbilled production during the three months ended March 31, 2020. Contract liabilities decreased by \$0.4 million from December 31, 2019 to March 31, 2020 due to the revenue earned related to precision molding and assembly systems and wind blades being produced exceeding the amounts billed to customers in the three months ended March 31, 2020.

The time it takes to produce a single blade is typically between 5 to 7 days. The time it takes to produce a mold is typically between 3 to 6 months.

For the three months ended March 31, 2020, we recognized \$3.0 million of revenue, which was included in the corresponding contract liability balance at the beginning of the period.

Performance Obligations

Remaining performance obligations represent the transaction price for which work has not been performed and excludes any unexercised contract options. As discussed in Note 1, *Summary of Operations and Significant Accounting Policies*, the transaction price includes estimated variable consideration as determined based on the estimated production output within the range of the contractual guaranteed minimum volume obligations and production capacity.

As of March 31, 2020, the aggregate amount of the transaction price allocated to the remaining performance obligations to be satisfied in future periods was approximately \$3.8 billion. We estimate that we will recognize the remaining performance obligations as revenue as follows: 34 percent in the remainder of 2020, 33 percent in 2021, 20 percent in 2022 and the remaining 13 percent in 2023. The transaction price allocated to the remaining performance obligations excludes approximately \$207.6 million of variable consideration over the contractual guaranteed minimum volume obligations under current contracts with customers which has been constrained primarily due to uncertainty associated with production volume during the remaining term of the agreements. We estimate the constraint will be resolved in subsequent periods when our customers provide additional information relevant to forecasted future production.

For the three months ended March 31, 2020, net revenue recognized from our performance obligations satisfied in previous periods was reduced by \$5.2 million as compared to a reduction of \$14.7 million in the same period of 2019. The current year decrease primarily related to changes in certain of our estimated total contract values and related percentage of completion estimates.

Pre-Production Investments

We recognize an asset for deferred costs incurred to fulfill a contract when those costs meet all of the following criteria: (a) the costs relate directly to a contract or to an anticipated contract that we can specifically identify; (b) the costs generate or enhance our

TPI COMPOSITES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

resources that will be used in satisfying performance obligations in the future; and, (c) the costs are expected to be recovered. We capitalize the costs related to training our workforce to execute the manufacturing services and other facility set-up costs related to preparing for production of a specific contract. We factor these costs into our estimated cost analysis for the overall contract. Costs capitalized are amortized over the number of units produced during the contract term. As of March 31, 2020, the cost and accumulated amortization of such assets totaled \$5.7 million and \$2.8 million, respectively. As of December 31, 2019, the cost and accumulated amortization of such assets totaled \$5.6 million and \$2.7 million, respectively. These amounts are included in other noncurrent assets in the condensed consolidated balance sheets and in cost of goods sold within the condensed consolidated statements of operations.

Note 3. Significant Risks and Uncertainties

Our revenues and receivables are earned from a small number of customers. As such, our production levels are dependent on these customers' orders. See Note 12, *Concentration of Customers*.

The COVID-19 pandemic adversely impacted our operations and results of operations for the three months ended March 31, 2020 due primarily to reduced production levels at our China manufacturing facilities. See Note 14, *Subsequent Events*, for additional details on the COVID-19 pandemic.

We maintain our U.S. cash in bank deposit accounts that, at times, exceed U.S. federally insured limits. U.S. bank accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) in an amount up to \$250,000 during 2020 and 2019. At March 31, 2020 and December 31, 2019, we had \$71.6 million and \$45.8 million, respectively, of cash in deposit accounts in U.S. banks, which was in excess of FDIC limits. We have not experienced losses in any such accounts.

We also maintain cash in bank deposit accounts outside the U.S. with no insurance. At March 31, 2020, this included \$21.1 million in Turkey, \$11.5 million in China, and \$3.5 million in India, \$1.6 million in Mexico and \$0.2 million in other countries. We have not experienced losses in these accounts. In addition, at March 31, 2020, we had short-term deposits in interest bearing accounts of \$0.6 million in China, which are reported as restricted cash in our condensed consolidated balance sheets. At March 31, 2020, we also had long-term deposits in interest bearing accounts of \$0.5 million in Iowa which are reported as restricted cash within the caption other noncurrent assets in our condensed consolidated balance sheets.

Note 4. Accounts Receivable

Accounts receivable consisted of the following:

| | March 31, 2020 | December 31, 2019 |
|---------------------------|-------------------|----------------------|
| | (in thousands) | |
| Trade accounts receivable | \$ 123,466 | \$ 180,051 |
| Other accounts receivable | 3,888 | 3,961 |
| Total accounts receivable | <u>\$ 127,354</u> | <u>\$ 184,012</u> |

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Note 5. Property, Plant and Equipment, Net

Property, plant and equipment, net consisted of the following:

| | March 31, 2020 | December 31, 2019 |
|--|-------------------|----------------------|
| | (in thousands) | |
| Machinery and equipment | \$ 183,155 | \$ 159,176 |
| Buildings | 14,273 | 14,495 |
| Leasehold improvements | 55,883 | 56,414 |
| Office equipment and software | 32,373 | 32,284 |
| Furniture | 23,292 | 22,429 |
| Vehicles | 565 | 562 |
| Construction in progress | 17,944 | 20,677 |
| Total property, plant and equipment, gross | 327,485 | 306,037 |
| Accumulated depreciation | (109,917) | (101,030) |
| Property, plant and equipment, net | <u>\$ 217,568</u> | <u>\$ 205,007</u> |

Total depreciation expense for the three months ended March 31, 2020 and 2019 was \$10.9 million and \$10.4 million, respectively.

As of March 31, 2020, the cost and accumulated depreciation of property, plant and equipment that we are leasing under finance lease arrangements were \$44.0 million and \$18.2 million, respectively. As of December 31, 2019, the cost and accumulated depreciation of property, plant and equipment that we are leasing under finance lease arrangements were \$45.0 million and \$17.0 million, respectively.

Note 6. Long-Term Debt, Net of Debt Issuance Costs and Current Maturities

Long-term debt, net of debt issuance costs and current maturities, consisted of the following:

| | March 31, 2020 | December 31, 2019 |
|---|-------------------|----------------------|
| | (in thousands) | |
| Senior revolving loan—U.S. | \$ 162,414 | \$ 112,414 |
| Accounts receivable financing—EMEAI | 3,704 | 3,805 |
| Unsecured financing—EMEA | 17,716 | — |
| Equipment financing—EMEAI | 6,839 | 7,903 |
| Equipment finance lease—U.S. | 179 | 288 |
| Equipment finance lease—EMEAI | 5,120 | 5,732 |
| Equipment finance lease—Mexico | 11,000 | 11,919 |
| Total debt - principal | 206,972 | 142,061 |
| Less: Debt issuance costs | (798) | (672) |
| Total debt, net of debt issuance costs | 206,174 | 141,389 |
| Less: Current maturities of long-term debt | (19,610) | (13,501) |
| Long-term debt, net of debt issuance costs and current maturities | <u>\$ 186,564</u> | <u>\$ 127,888</u> |

In February 2020, we entered into an Incremental Facility Agreement with the current lenders to our Credit Agreement and an additional lender, pursuant to which the aggregate principal amount of our revolving credit facility under the Credit Agreement was increased from \$150.0 million to \$205.0 million. All other material terms and conditions of the Credit Agreement remained the same.

In the first quarter of 2020, we entered into a credit agreement with a Turkish financial institution to provide up to 15.0 million Euro (approximately \$16.6 million as of March 31, 2020) of unsecured financing. Interest accrues at a fixed rate of 2.25% and is payable at the end of the term when the loan is repaid. As of March 31, 2020, there was \$16.6 million outstanding under this credit agreement.

TPI COMPOSITES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Note 7. Share-Based Compensation Plans

Our Amended and Restated 2015 Stock Option and Incentive Plan (the 2015 Plan) provides for the issuance of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock units, restricted stock awards, unrestricted stock awards, cash-based awards, performance share awards and dividend equivalent rights to certain employees, non-employee directors and consultants. Under the 2015 Plan, we have granted awards of stock options, restricted stock units (RSUs) and performance-based restricted stock units (PSUs) to certain employees and non-employee directors.

During the three months ended March 31, 2020, we issued to certain employees and non-employee directors an aggregate of 412,729 timed-based RSUs, 112,561 PSUs that vest upon achievement of a cumulative, three-year Adjusted EBITDA target measured from January 1, 2020 through December 31, 2022, and 184,522 PSUs that vest upon achievement of certain stock price hurdles for the period of the grant date through December 31, 2022. All of the time-based RSUs vest on the third anniversary date of the grant date. Each of the time-based and performance-based awards are subject to the recipient's continued service with us, the terms and conditions of the 2015 Plan and the applicable award agreement. In addition, during the three months ended March 31, 2020, we issued 7,082 stock options to an employee.

The share-based compensation expense recognized in the condensed consolidated statements of operations was as follows:

| | Three Months Ended | |
|---|---------------------------|---------------|
| | March 31, | |
| | 2020 | 2019 |
| | (in thousands) | |
| Cost of goods sold | \$ 171 | \$ 177 |
| General and administrative expenses | 2,771 | 808 |
| Total share-based compensation expense | \$ 2,942 | \$ 985 |

The share-based compensation expense recognized by award type was as follows:

| | Three Months Ended | |
|---|---------------------------|---------------|
| | March 31, | |
| | 2020 | 2019 |
| | (in thousands) | |
| RSUs | \$ 956 | \$ 922 |
| Stock options | 1,653 | 436 |
| PSUs | 333 | (373) |
| Total share-based compensation expense | \$ 2,942 | \$ 985 |

Included in total share-based compensation expense for the three months ended March 31, 2020 is \$1.7 million of compensation expense associated with the modification of certain employee and non-employee awards during the quarter. The modifications primarily provided for the extension of the post termination exercise period of outstanding stock options, resulting in a one-time charge in the three months ended March 31, 2020.

As of March 31, 2020, the unamortized cost of the outstanding RSUs and PSUs was \$10.1 million and \$5.1 million, respectively, which we expect to recognize in the condensed consolidated financial statements over weighted-average periods of approximately 2.5 years and 2.5 years, respectively. Additionally, the total unrecognized cost related to non-vested stock option awards was \$1.9 million, which we expect to recognize in the condensed consolidated financial statements over a weighted-average period of approximately 1.7 years.

TPI COMPOSITES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

The summary of activity under our incentive plans is as follows:

| | Shares Available for Grant | Stock Options | | RSUs | | PSUs | | |
|---------------------------------|----------------------------|------------------|---------------------------------|---------------------|----------------|--|----------------|--|
| | | Shares | Weighted-Average Exercise Price | Options Exercisable | Units | Weighted-Average Grant Date Fair Value | Units | Weighted-Average Grant Date Fair Value |
| Balance as of December 31, 2019 | 6,621,512 | 2,594,228 | \$ 14.29 | 1,697,272 | 354,427 | \$ 24.99 | 491,718 | \$ 26.20 |
| Increase in shares authorized | 1,407,228 | — | — | — | — | — | — | — |
| Granted | (716,894) | 7,082 | 17.06 | — | 412,729 | 22.55 | 297,083 | 22.55 |
| Exercised/vested | — | (36,484) | 11.45 | — | (73,310) | 23.29 | — | — |
| Forfeited/cancelled | 95,268 | (69,376) | 19.98 | — | (8,213) | 27.32 | (17,679) | 28.60 |
| Balance as of March 31, 2020 | <u>7,407,114</u> | <u>2,495,450</u> | 14.18 | 1,807,018 | <u>685,633</u> | 23.68 | <u>771,122</u> | 24.74 |

The fair value of RSUs which vested during the three months ended March 31, 2020 was \$1.3 million. In addition, during the three months ended March 31, 2020, we repurchased 26,099 shares for \$0.5 million related to tax withholding requirements on vested RSU awards. The total intrinsic value of stock options outstanding and exercisable as of March 31, 2020 was \$5.8 million and \$5.0 million, respectively.

The following table summarizes the outstanding and exercisable stock option awards as of March 31, 2020:

| Range of Exercise Prices: | Options Outstanding | | | Options Exercisable | |
|---------------------------|---------------------|--|---------------------------------|---------------------|---------------------------------|
| | Shares | Weighted-Average Remaining Contractual Life (in years) | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| \$8.49 | 12,914 | 0.5 | \$ 8.49 | 12,914 | \$ 8.49 |
| \$10.87 | 1,441,721 | 5.2 | 10.87 | 1,240,796 | 10.87 |
| \$11.00 to \$17.06 | 327,083 | 5.9 | 15.97 | 273,200 | 16.00 |
| \$18.70 | 181,059 | 6.3 | 18.70 | 157,906 | 18.70 |
| \$18.77 to \$29.26 | 532,673 | 8.9 | 20.65 | 122,202 | 20.48 |
| \$8.49 to \$29.26 | <u>2,495,450</u> | 6.1 | 14.18 | <u>1,807,018</u> | 12.96 |

Note 8. Leases

We have operating and finance leases for our manufacturing facilities, warehouses, offices, automobiles and certain of our machinery and equipment. Our leases have remaining lease terms of between one and 15 years, some of which may include options to extend the leases up to five years.

The components of lease cost were as follows:

| | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|---|-----------------------------------|-----------------------------------|
| | (in thousands) | |
| Operating lease cost | <u>\$ 8,571</u> | <u>\$ 7,753</u> |
| Finance lease cost | | |
| Amortization of assets under finance leases | \$ 1,547 | \$ 1,514 |
| Interest on finance leases | 279 | 408 |
| Total finance lease cost | <u>\$ 1,826</u> | <u>\$ 1,922</u> |

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Future minimum lease payments under noncancelable leases as of March 31, 2020 were as follows:

| | Operating Leases | Finance Leases |
|-------------------------------------|-----------------------------|---------------------------|
| | (in thousands) | |
| Year Ending December 31, | | |
| 2020 | \$ 23,363 | \$ 4,914 |
| 2021 | 29,830 | 6,395 |
| 2022 | 29,120 | 5,633 |
| 2023 | 28,742 | 817 |
| 2024 | 25,651 | 200 |
| Thereafter | 118,995 | — |
| Total future minimum lease payments | 255,701 | 17,959 |
| Less: interest | (75,141) | (1,613) |
| Total lease liabilities | <u>\$ 180,560</u> | <u>\$ 16,346</u> |

Total lease liabilities as of March 31, 2020 were as follows:

| | Operating Leases | Finance Leases |
|---|-----------------------------|---------------------------|
| | (in thousands) | |
| Current operating lease liabilities | \$ 17,435 | \$ — |
| Current maturities of long-term debt | — | 5,537 |
| Noncurrent operating lease liabilities | 163,125 | — |
| Long-term debt, net of debt issuance costs and current maturities | — | 10,809 |
| Total lease liabilities | <u>\$ 180,560</u> | <u>\$ 16,346</u> |

See Note 5, *Property, Plant and Equipment, Net* for a discussion of the cost and accumulated depreciation of assets financed through finance leases.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Other information related to leases was as follows:

| | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|--|--|--|
| (in thousands) | | |
| Supplemental Cash Flow Information | | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 7,508 | \$ 7,542 |
| Operating cash flows from finance leases | 279 | 408 |
| Financing cash flows from finance leases | 1,492 | 2,929 |
| Right of use assets obtained in exchange for new lease obligations: | | |
| Operating leases | 55,156 | 11,883 |
| Finance leases | — | 4,703 |
| | | |
| | March 31, 2020 | December 31, 2019 |
| Weighted-Average Remaining Lease Term (In Years): | | |
| Operating leases | 8.3 | 7.6 |
| Finance leases | 2.9 | 3.2 |
| Weighted-Average Discount Rate: | | |
| Operating leases | 8.1% | 7.5% |
| Finance leases | 6.4% | 6.4% |

As of March 31, 2020, we have additional leases related to new manufacturing facilities that have not yet commenced totaling approximately \$10 million.

Note 9. Income Taxes

Income taxes for the three months ended March 31, 2020 were lower than for the corresponding periods ended March 31, 2019 primarily due to the earning mix by jurisdiction in 2020 as compared to 2019.

We do not record a deferred tax liability related to unremitted foreign earnings as we maintain our assertion to indefinitely reinvest our unremitted foreign earnings.

An ownership change under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the Code) was deemed to occur in June 2018. In general, a Section 382 and 383 ownership change occurs if there is a cumulative change in our ownership by “5% shareholders” (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. Based on the analysis performed, however, we do not believe that the Section 382 and 383 annual limitation will materially impact our ability to utilize the tax attributes that existed as of the date of the ownership change. Additional ownership changes in the future could result in additional limitations to our net operating loss carryforwards and credits.

No changes in tax law occurred during the quarter which have a material impact on our income tax provision.

Note 10. Restructuring Charges

In May 2019, we announced plans to consolidate certain of our manufacturing facilities, including our plan to shut down the two blade lines operating in our Taicang Port facility and move our tooling operation from Taicang City to the larger Taicang Port facility, thereby expanding our tooling capacity for larger blades and reducing overall costs. We substantially completed these plans by the end of 2019.

In accordance with these plans, during the three months ended March 31, 2020, we incurred total charges of \$0.1 million. These charges are located within the caption “Restructuring charges, net” in the accompanying condensed consolidated statements of operations. We do not expect to incur any material additional charges under these plans throughout the remainder of 2020.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Note 11. Commitments and Contingencies

Legal Proceedings

From time to time, we are party to various lawsuits, claims, and other legal proceedings that arise in the ordinary course of business, some of which are covered by insurance. Upon resolution of any pending legal matters, we may incur charges in excess of presently established reserves or our insurance policy limits. Our management does not believe that any such charges would, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

Note 12. Concentration of Customers

Revenues from certain customers (in thousands) in excess of 10 percent of our total consolidated revenues are as follows:

| <u>Customer</u> | Three Months Ended March 31, | | | |
|-----------------|---------------------------------|------------|------------|------------|
| | 2020 | | 2019 | |
| | Revenues | % of Total | Revenues | % of Total |
| Vestas | \$ 157,412 | 44.1% | \$ 128,614 | 42.9% |
| GE | 100,132 | 28.1% | 84,529 | 28.2% |
| Nordex | 53,257 | 14.9% | 54,868 | 18.3% |

Trade accounts receivable from certain customers in excess of 10 percent of our total consolidated trade accounts receivable are as follows:

| <u>Customer</u> | March 31, | December 31, |
|-----------------|------------|--------------|
| | 2020 | 2019 |
| | % of Total | % of Total |
| Vestas | 42.7% | 41.9% |
| Nordex | 27.3% | 31.3% |

Note 13. Segment Reporting

Our operating segments are defined geographically as the U.S., Asia, Mexico and EMEAI. Financial results are aggregated into four reportable segments based on quantitative thresholds. All of our segments operate in their local currency, however a portion of the revenue attributable to our Asia and Mexico segments is derived in U.S. dollars because certain of our domestic subsidiaries are the contracting parties to the associated customer supply agreements.

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

The following tables set forth certain information regarding each of our segments:

| | Three Months Ended March 31, | |
|---|---------------------------------|--------------------|
| | 2020 | 2019 |
| (in thousands) | | |
| Revenues by segment: | | |
| U.S. | \$ 47,431 | \$ 41,628 |
| Asia | 91,137 | 68,718 |
| Mexico | 118,250 | 84,665 |
| EMEAI | 99,818 | 104,769 |
| Total revenues | <u>\$ 356,636</u> | <u>\$ 299,780</u> |
| Revenues by geographic location (1): | | |
| U.S. | \$ 47,431 | \$ 41,628 |
| China | 91,137 | 68,718 |
| Mexico | 118,250 | 84,665 |
| Turkey and India | 99,818 | 104,769 |
| Total revenues | <u>\$ 356,636</u> | <u>\$ 299,780</u> |
| Income (loss) from operations: | | |
| U.S. (2) | \$ (15,586) | \$ (14,503) |
| Asia | 5,072 | (8,800) |
| Mexico | (1,768) | (424) |
| EMEAI | (3,122) | 12,071 |
| Total loss from operations | <u>\$ (15,404)</u> | <u>\$ (11,656)</u> |

| | March 31, 2020 | December 31, 2019 |
|--|-------------------|----------------------|
| | (in thousands) | |
| Property, plant and equipment, net: | | |
| U.S. | \$ 35,241 | \$ 36,410 |
| Asia (China) | 51,502 | 50,603 |
| Mexico | 79,504 | 81,654 |
| EMEAI (Turkey and India) | 51,321 | 36,340 |
| Total property, plant and equipment, net | <u>\$ 217,568</u> | <u>\$ 205,007</u> |

- (1) Revenues are attributable to countries based on the location where the product is manufactured or the services are performed.
- (2) The losses from operations in our U.S. segment includes corporate general and administrative costs of \$9.5 million and \$8.0 million for the three months ended March 31, 2020 and 2019, respectively.

Note 14. Subsequent Events

During the second quarter of 2020, several of our manufacturing facilities have been required to temporarily suspend production or operate at reduced production levels due primarily to certain applicable government-mandated stay at home orders in response to the COVID-19 pandemic, demands from certain of our labor unions to suspend or reduce production and general safety concerns of our associates.

Currently, our manufacturing facilities in India and Matamoros, Mexico are operating at limited production levels, our manufacturing facilities in Juárez, Mexico are temporarily shutdown, our manufacturing facility in Iowa restarted operations at a limited production level on May 6, 2020 after a temporary shutdown and our manufacturing facilities in China, Turkey and Rhode Island are operating at normal production levels.

Although our China and Turkey manufacturing facilities have resumed full production and customer demand for our products remain strong, we expect that the COVID-19 pandemic will have an adverse effect on our operations, results of operations and financial condition for the balance of 2020 due to the impact of the COVID-19 pandemic on our manufacturing production levels. As a result of the uncertainty relating to: (i) the rapidly evolving nature, magnitude and duration of the COVID-19 pandemic, (ii) the variety of measures implemented by governments around the world to address its effects and (iii) the impact on our manufacturing operations,

TPI COMPOSITES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

we, however, are unable to currently estimate and quantify the actual impact of COVID-19 on our business, results of operations and financial condition for the balance of 2020.

As a result of such uncertainty, we are managing our liquidity to ensure our long-term viability until the COVID-19 pandemic abates. During the three months ended March 31, 2020, we drew down \$50.0 million under our Credit Agreement and an additional \$30.0 million in April 2020.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and the related notes and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q (Form 10-Q). Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10-Q, including information with respect to plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those described in or implied by these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Form 10-Q or in our previously filed Annual Report on Form 10-K, particularly those under "Risk Factors."

OVERVIEW

Our Company

We are the only independent manufacturer of composite wind blades for the wind energy market with a global manufacturing footprint. We enable many of the industry's leading wind turbine original equipment manufacturers (OEM), who have historically relied on in-house production, to outsource the manufacturing of some of their wind blades through our global footprint of advanced manufacturing facilities strategically located to serve large and growing wind markets in a cost-effective manner. Given the importance of wind energy capture, turbine reliability and cost to power producers, the size, quality and performance of wind blades have become highly strategic to our OEM customers. As a result, we have become a key supplier to our OEM customers in the manufacture of wind blades and related precision molding and assembly systems. We have entered into long-term supply agreements pursuant to which we dedicate capacity at our facilities to our customers in exchange for their commitment to purchase minimum annual volumes of wind blade sets, which consist of three wind blades. As of May 6, 2020, our long-term wind and transportation supply agreements provide for minimum aggregate volume commitments from our customers of approximately \$2.5 billion and encourage our customers to purchase additional volume up to, in the aggregate, a total contract value of approximately \$5.0 billion through the end of 2023. This collaborative dedicated supplier model provides us with contracted volumes that generate significant revenue visibility, drive capital efficiency and allow us to produce wind blades at a lower total delivered cost, while ensuring critical dedicated capacity for our customers. Our wind blade and precision molding and assembly systems manufacturing businesses accounted for approximately 96% of our total net sales for both the three months ended March 31, 2020 and 2019. We also leverage our advanced composite technology and history of innovation to supply high strength, lightweight and durable composite products to the transportation market.

We divide our business operations into four geographic operating segments - (1) the United States (U.S.), (2) Asia, (3) Mexico and (4) Europe, the Middle East, Africa and India (EMEAI) as follows:

- Our U.S. segment includes (1) the manufacturing of wind blades at our Newton, Iowa plant, (2) the manufacturing of precision molding and assembly systems used to manufacture wind blades at our Warren, Rhode Island facility, (3) the manufacturing of composite solutions for the transportation industry, which we also conduct at our Rhode Island facility, (4) wind blade inspection and repair services in North America, (5) our advanced engineering center in Kolding, Denmark, which provides technical and engineering resources to our manufacturing facilities, (6) our engineering center in Berlin, Germany which we purchased in July 2019 and (7) our corporate headquarters, the costs of which are included in general and administrative expenses.
- Our Asia segment includes (1) the manufacturing of wind blades at our facilities in Dafeng, China and Yangzhou, China, the latter of which commenced operations in March 2019, (2) the manufacturing of precision molding and assembly systems at our Taicang Port, China facility and (3) wind blade inspection and repair services.
- Our Mexico segment manufactures wind blades from three facilities in Juárez, Mexico and a facility in Matamoros, Mexico. In addition, we have a facility which manufactures precision molding and assembly systems and composite solutions for the transportation industry in Juárez, Mexico and we commenced operations at this facility in March 2019. This segment also performs wind blade inspection and repair services.
- Our EMEAI segment manufactures wind blades from two facilities in Izmir, Turkey and also performs wind blade inspection and repair services. In February 2019, we entered into a new lease agreement with a third party for a new manufacturing facility that was built in Chennai, India and we commenced operations at this facility in the first quarter of 2020.

KEY TRENDS AND RECENT DEVELOPMENTS AFFECTING OUR BUSINESS

The COVID-19 pandemic adversely impacted our operations and results of operations for the quarter ended March 31, 2020 due primarily to reduced production levels at our China manufacturing facilities. We estimate that our net sales were adversely impacted

by approximately \$38 million, our net loss by approximately \$9 million, which is net of approximately \$2 million of income taxes, and our Adjusted EBITDA by approximately \$11 million due to reduced production levels at our China manufacturing facilities due to the COVID-19 pandemic.

During the second quarter of 2020, several of our manufacturing facilities have been required to temporarily suspend production or operate at reduced production levels due primarily to certain applicable government-mandated stay at home orders in response to the COVID-19 pandemic, demands from certain of our labor unions to suspend or reduce production and general safety concerns of our associates.

Currently, our manufacturing facilities in India and Matamoros, Mexico are operating at limited production levels, our manufacturing facilities in Juárez, Mexico are temporarily shutdown, our manufacturing facility in Iowa restarted operations at a limited production level on May 6, 2020 after a temporary shutdown and our manufacturing facilities in China, Turkey and Rhode Island are operating at normal production levels.

Although our China and Turkey manufacturing facilities have resumed full production and customer demand for our products remain strong, we expect that the COVID-19 pandemic will have an adverse effect on our operations, results of operations and financial condition for the balance of 2020 due to the impact of the COVID-19 pandemic on our manufacturing production levels. As a result of the uncertainty relating to: (i) the rapidly evolving nature, magnitude and duration of the COVID-19 pandemic, (ii) the variety of measures implemented by governments around the world to address its effects and (iii) the impact on our manufacturing operations, we, however, are unable to currently estimate and quantify the actual impact of COVID-19 on our business, results of operations and financial condition for the balance of 2020.

As a result of such uncertainty, we are managing our liquidity to ensure our long-term viability until the COVID-19 pandemic abates. During the three months ended March 31, 2020, we drew down \$50.0 million under our Credit Agreement and an additional \$30.0 million in April 2020.

COMPONENTS OF RESULTS OF OPERATIONS

Net Sales

We recognize revenue from manufacturing services over time as our customers control the product as it is produced, and we may not use or sell the product to fulfill other customers' contracts. Net sales include amounts billed to our customers for our products, including wind blades, precision molding and assembly systems and other products and services, as well as the progress towards the completion of the performance obligation for products in progress, which is determined on a ratio of direct costs incurred to date in fulfillment of the contract to the total estimated direct costs required to complete the performance obligation.

Cost of Goods Sold

Cost of goods sold includes the costs we incur at our production facilities to make products saleable on both products invoiced during the period as well as products in progress towards the completion of each performance obligation. Cost of goods sold includes such items as raw materials, direct and indirect labor and facilities costs, including purchasing and receiving costs, plant management, inspection costs, production process improvement activities, product engineering and internal transfer costs. In addition, all depreciation associated with assets used in the production of our products is also included in cost of goods sold. Direct labor costs consist of salaries, benefits and other personnel related costs for employees engaged in the manufacturing of our products and services.

Startup and transition costs are primarily unallocated fixed overhead costs and underutilized direct labor costs incurred during the period production facilities are transitioning wind blade models and ramping up manufacturing. All direct labor costs are included in the measure of progress towards completion of the relevant performance obligation when determining revenue to be recognized during the period. The cost of sales for the initial wind blades from a new model manufacturing line is generally higher than when the line is operating at optimal production volume levels due to inefficiencies during ramp-up related to labor hours per blade, cycle times per blade and raw material usage. Additionally, these costs as a percentage of net sales are generally higher during the period in which a facility is ramping up to full production capacity due to underutilization of the facility. Manufacturing overhead at each of our facilities includes virtually all indirect costs (including share-based compensation costs) incurred at the plants, including engineering, finance, information technology, human resources and plant management.

General and Administrative Expenses

General and administrative expenses primarily relate to the unallocated portion of costs incurred at our corporate headquarters and our research facilities and include salaries, benefits and other personnel related costs for employees engaged in research and development, engineering, finance, internal audit, information technology, human resources, business development, global operational excellence,

global supply chain, in-house legal and executive management. Other costs include outside legal and accounting fees, risk management (insurance), share-based compensation and certain other administrative and global resources costs.

The research and development expenses incurred at our Warren, Rhode Island location, our Kolding, Denmark advanced engineering center and our Berlin, Germany engineering center are also included in general and administrative expenses. For the three months ended March 31, 2020 and 2019, research and development expenses totaled \$0.2 million and \$0.2 million, respectively.

Realized Loss on Sale of Assets and Asset Impairments

Realized loss on sale of assets represents the realized losses on the sale of receivables under supply chain financing arrangements with our customers and realized gains and losses on the sale of other assets and asset impairments at our corporate and manufacturing facilities.

Restructuring Charges

Restructuring charges primarily consist of employee severance, one-time termination benefits and ongoing benefits related to the reduction of our workforce and other costs associated with exit activities, which may include costs related to leased facilities to be abandoned and facility and employee relocation costs.

Other Income (Expense)

Other income (expense) consists primarily of interest expense on our debt borrowings and the amortization of deferred financing costs on such borrowings. Other income (expense) also includes realized gains and losses on foreign currency remeasurement, interest income, losses on extinguishment of debt and miscellaneous income and expense.

Income Taxes

Income taxes consist of federal, state, provincial, local and foreign taxes based on income in jurisdictions in which we operate, including in the U.S., China, Mexico, Turkey and India. The composite income tax rate, tax provisions, deferred tax assets and liabilities vary according to the jurisdiction in which the income or loss arises. Tax laws are complex and subject to different interpretations by management and the respective governmental taxing authorities, and require us to exercise judgment in determining our income tax provision, our deferred tax assets and liabilities and the valuation allowance recorded against our net deferred tax assets.

KEY METRICS USED BY MANAGEMENT TO MEASURE PERFORMANCE

In addition to measures of financial performance presented in our condensed consolidated financial statements in accordance with GAAP, we use certain other financial and operating metrics to analyze our performance. These “non-GAAP” financial measures consist of EBITDA, adjusted EBITDA, free cash flow and net cash (debt), which help us evaluate growth trends, establish budgets, assess operational efficiencies, oversee our overall liquidity, and evaluate our overall financial performance. The key operating metrics consist of wind blade sets invoiced, estimated megawatts of energy capacity for wind blade sets invoiced, utilization percentage, manufacturing lines dedicated to customers under long-term supply agreements and manufacturing lines installed, which help us evaluate our operational performance. We believe that these measures are useful to investors in evaluating our performance.

KEY FINANCIAL METRICS

| | Three Months Ended | |
|----------------------|---------------------------|-------------|
| | March 31, | |
| | 2020 | 2019 |
| | (in thousands) | |
| Net sales | \$ 356,636 | \$ 299,780 |
| Net loss | \$ (492) | \$ (12,104) |
| EBITDA (1) | \$ (2,721) | \$ (4,097) |
| Adjusted EBITDA (1) | \$ 1,296 | \$ 2,925 |
| Capital expenditures | \$ 26,983 | \$ 18,709 |
| Free cash flow (1) | \$ (24,415) | \$ (30,800) |

| | March 31, 2020 | December 31, 2019 |
|--|-------------------|----------------------|
| | (in thousands) | |
| Total debt, net of debt issuance costs | \$ 206,174 | \$ 141,389 |
| Net debt (1) | \$ (97,499) | \$ (71,779) |

- (1) See below for more information and a reconciliation of EBITDA, adjusted EBITDA, free cash flow and net debt to net income (loss), net income (loss), net cash provided by (used in) operating activities and total debt, net of debt issuance costs, respectively, the most directly comparable financial measures calculated and presented in accordance with GAAP.

EBITDA and Adjusted EBITDA

We define EBITDA, a non-GAAP financial measure, as net income or loss plus interest expense (including losses on extinguishment of debt and net of interest income), income taxes and depreciation and amortization. We define adjusted EBITDA as EBITDA plus any share-based compensation expense, any realized gains or losses from foreign currency remeasurement, any gains or losses from the sale of assets and asset impairments and any restructuring charges. Adjusted EBITDA is the primary metric used by our management and our board of directors to establish budgets and operational goals for managing our business and evaluating our performance. In addition, our credit agreement (the Credit Agreement) that we entered into in April 2018 contains minimum EBITDA (as defined in the Credit Agreement) covenants with which we must comply. We monitor adjusted EBITDA as a supplement to our GAAP measures, and believe it is useful to present to investors, because we believe that it facilitates evaluation of our period-to-period operating performance by eliminating items that are not operational in nature, allowing comparison of our recurring core business operating results over multiple periods unaffected by differences in capital structure, capital investment cycles and fixed asset base. In addition, we believe adjusted EBITDA and similar measures are widely used by investors, securities analysts, ratings agencies, and other parties in evaluating companies in our industry as a measure of financial performance and debt-service capabilities.

Our use of EBITDA and adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP.

In evaluating EBITDA and adjusted EBITDA, you should be aware that in the future, we will incur expenses similar to the adjustments noted herein. Our presentations of EBITDA and adjusted EBITDA should not be construed as suggesting that our future results will be unaffected by these expenses or any unusual or non-recurring items. When evaluating our performance, you should consider EBITDA and adjusted EBITDA alongside other financial performance measures, including our net income (loss) and other GAAP measures.

Free cash flow

We define free cash flow as net cash provided by (used in) operating activities less capital expenditures. We believe free cash flow is a useful measure for investors because it portrays our ability to generate cash from our business for purposes such as repaying maturing debt and funding business acquisitions.

Net cash (debt)

We define net cash (debt) as total unrestricted cash and cash equivalents less the total principal amount of debt outstanding. The total principal amount of debt outstanding is comprised of the long-term debt and current maturities of long-term debt as presented in our condensed consolidated balance sheets adding back any debt issuance costs and discounts. We believe that the presentation of net cash (debt) provides useful information to investors because our management reviews net cash (debt) as part of our oversight of overall liquidity, financial flexibility and leverage. Net cash (debt) is important when we consider opening new plants and expanding existing plants, as well as for capital expenditure requirements.

The following tables reconcile our non-GAAP key financial measures to the most directly comparable GAAP measures:

EBITDA and adjusted EBITDA are reconciled as follows:

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2020 | 2019 |
| | (in thousands) | |
| Net loss | \$ (492) | \$ (12,104) |
| Adjustments: | | |
| Depreciation and amortization | 11,028 | 10,659 |
| Interest expense (net of interest income) | 1,771 | 1,948 |
| Income tax benefit | (15,028) | (4,600) |
| EBITDA | (2,721) | (4,097) |
| Share-based compensation expense | 2,942 | 985 |
| Realized (gain) loss on foreign currency remeasurement | (960) | 3,802 |
| Realized loss on sale of assets and asset impairments | 1,918 | 2,235 |
| Restructuring charges, net | 117 | — |
| Adjusted EBITDA | \$ 1,296 | \$ 2,925 |

- (1) Represents the effect of the difference in the exchange rates used by our various foreign subsidiaries when converted to U.S. dollars on the net sales and contract assets as of period-end.

Free cash flow is reconciled as follows:

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2020 | 2019 |
| | (in thousands) | |
| Net cash provided by (used in) operating activities | \$ 2,568 | \$ (12,091) |
| Less capital expenditures | (26,983) | (18,709) |
| Free cash flow | \$ (24,415) | \$ (30,800) |

Net debt is reconciled as follows:

| | March 31, | December 31, |
|---|----------------|--------------|
| | 2020 | 2019 |
| | (in thousands) | |
| Cash and cash equivalents | \$ 109,473 | \$ 70,282 |
| Less total debt, net of debt issuance costs | (206,174) | (141,389) |
| Less debt issuance costs | (798) | (672) |
| Net debt | \$ (97,499) | \$ (71,779) |

KEY OPERATING METRICS

| | Three Months Ended March 31, | |
|-------------------------------|---------------------------------|-------|
| | 2020 | 2019 |
| Sets | 738 | 662 |
| Estimated megawatts | 2,329 | 1,861 |
| Utilization | 70% | 64% |
| Dedicated manufacturing lines | 52 | 54 |
| Manufacturing lines installed | 52 | 49 |

Key operating metrics consist of sets invoiced, estimated megawatts of energy capacity for wind blade sets invoiced, utilization, dedicated manufacturing lines and manufacturing lines installed.

Sets represents the number of wind blade sets, consisting of three wind blades each, which we invoiced worldwide during the period. We monitor sets and believe that presenting sets to investors is helpful because we believe that it is the most direct measurement of our manufacturing output during the period. Sets primarily impact net sales.

Estimated megawatts are the energy capacity to be generated by wind blade sets invoiced in the period. Our estimate is based solely on name-plate capacity of the wind turbine on which the wind blades we manufacture are expected to be installed. We monitor estimated megawatts and believe that presenting estimated megawatts to investors is helpful because we believe that it is a commonly followed measurement of energy capacity across our industry and provides an indication of our share of the overall wind blade market.

Utilization represents the percentage of the number of wind blades invoiced during the period compared to the total potential wind blade capacity of manufacturing lines installed at the end of the period.

Dedicated manufacturing lines are the number of wind blade manufacturing lines that we have dedicated to our customers pursuant to our long-term supply agreements at the end of the period. We monitor dedicated manufacturing lines and believe that presenting this metric to investors is helpful because we believe that the number of dedicated manufacturing lines is the best indicator of demand for the wind blades we manufacture for customers under our long-term supply agreements in any given period. We believe that dedicated manufacturing lines provide an understanding of additional capacity within an existing facility. Dedicated manufacturing lines primarily impacts our net sales.

Manufacturing lines installed represents the number of wind blade manufacturing lines installed and either in operation, startup or transition at the end of the period. We believe that total manufacturing lines installed provides an understanding of the number of manufacturing lines installed and either in operation, startup or transition.

Results of Operations

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

The following table summarizes certain information relating to our operating results and related percentage of net sales for the three months ended March 31, 2020 and 2019 that has been derived from our unaudited condensed consolidated financial statements.

| | Three Months Ended March 31, | | | |
|---|---------------------------------|--------|-------------|--------|
| | 2020 | | 2019 | |
| | (dollars in thousands) | | | |
| Net sales | \$ 356,636 | 100.0% | \$ 299,780 | 100.0% |
| Cost of sales | 348,475 | 97.7 | 283,038 | 94.4 |
| Startup and transition costs | 12,034 | 3.4 | 18,178 | 6.1 |
| Total cost of goods sold | 360,509 | 101.1 | 301,216 | 100.5 |
| Gross loss | (3,873) | (1.1) | (1,436) | (0.5) |
| General and administrative expenses | 9,496 | 2.7 | 7,985 | 2.7 |
| Realized loss on sale of assets and asset impairments | 1,918 | 0.5 | 2,235 | 0.7 |
| Restructuring charges, net | 117 | 0.0 | — | 0.0 |
| Loss from operations | (15,404) | (4.3) | (11,656) | (3.9) |
| Other expense | (116) | 0.0 | (5,048) | (1.6) |
| Loss before income taxes | (15,520) | (4.3) | (16,704) | (5.5) |
| Income tax benefit | 15,028 | 4.2 | 4,600 | 1.5 |
| Net loss | \$ (492) | (0.1)% | \$ (12,104) | (4.0)% |

Net sales for the three months ended March 31, 2020 increased by \$56.9 million or 19.0% to \$356.6 million compared to \$299.8 million in the same period in 2019. Net sales of wind blades increased by 21.4% to \$336.3 million for the three months ended March 31, 2020 as compared to \$277.0 million in the same period in 2019. The increase was primarily driven by a 10.8% increase in the number of wind blades produced during the three months ended March 31, 2020 compared to the same period in 2019 largely as a result of increased production at our Mexico facilities. Although our net sales increased for the three months ended March 31, 2020 compared to the same period in 2019, our net sales for the three months ended March 31, 2020 were adversely impacted by approximately \$38 million due to reduced production levels at our China manufacturing facilities due to the COVID-19 pandemic. This increase was also due to a higher average sales price due to the mix of wind blade models produced during the three months ended March 31, 2020 compared to the same period in 2019 as well as an increase in the year over year number of wind blades still in

the production process at the end of the period. Net sales from the manufacturing of precision molding and assembly systems during the three months ended March 31, 2020 were \$6.8 million as compared to \$11.2 million in the same period in 2019. Additionally, there was a \$1.9 million increase in transportation and other sales during the three months ended March 31, 2020 as compared to the same period in 2019. The impact of the fluctuating U.S. dollar against the Euro in our Turkey operations and the Chinese Renminbi in our China operations on consolidated net sales for the three months ended March 31, 2020 was a decrease of 0.9% as compared to the same period in 2019.

Total cost of goods sold for the three months ended March 31, 2020 was \$360.5 million and included \$7.8 million related to lines in startup in our plants in India and China and \$4.2 million of transition costs related to lines in transition during the quarter. This compares to total cost of goods sold for the three months ended March 31, 2019 of \$301.2 million and included \$16.1 million related to lines in startup in our plants in Mexico, Iowa and China and the startup of new wind blade models for a customer in Turkey and \$2.1 million of transition costs related to lines in transition during the quarter. Total cost of goods sold as a percentage of net sales remained relatively consistent during the three months ended March 31, 2020 as compared to the same period in 2019, driven primarily by the increase in direct labor and warranty costs, offset by the impact of savings in raw material costs, the decrease in startup and transition costs and the impact of foreign currency. The impact of the fluctuating U.S. dollar against the Euro, Turkish Lira, Chinese Renminbi and Mexican Peso decreased consolidated cost of goods sold by 2.5% for three months ended March 31, 2020 as compared to the same period in 2019.

General and administrative expenses for the three months ended March 31, 2020 totaled \$9.5 million, or 2.7% of net sales, compared to \$8.0 million, or 2.7% of net sales, for the same period in 2019.

Realized loss on sale of assets and asset impairments for the three months ended March 31, 2020 totaled \$1.9 million and was comprised primarily of realized losses on the sale of receivables under supply chain financing arrangements with our customers. Realized loss on sale of assets and asset impairments for the three months ended March 31, 2019 totaled \$2.2 million and was comprised of \$1.3 million of realized losses on the sale of receivables under supply chain financing arrangements with our customers and \$0.9 million of realized losses on the sale of assets at our corporate and manufacturing facilities.

Restructuring charges for the three months ended March 31, 2020 totaled \$0.1 million related to the closing of our Taicang City China manufacturing facility. There were no restructuring charges in the comparable period in 2019.

Other expense totaled \$0.1 million for the three months ended March 31, 2020 as compared to other expense totaling \$5.0 million for the same period in 2019. The decrease in the expense was primarily due to a \$4.8 million decrease in realized losses on foreign currency remeasurement and a \$0.2 million decrease in interest expense in the three months ended March 31, 2020 as compared to the same period in 2019.

Income taxes reflected a benefit of \$15.0 million for the three months ended March 31, 2020 as compared to a benefit of \$4.6 million for the same period in 2019. The increase in the benefit was primarily due to the earnings mix by jurisdiction in the three months ended March 31, 2020 as compared to the same period in 2019.

Net loss for the three months ended March 31, 2020 was \$0.5 million as compared to a net loss of \$12.1 million in the same period in 2019. The decrease in the loss was primarily due to the reasons set forth above. Although our net loss decreased for the three months ended March 31, 2020 compared to the same period in 2019, our net loss for the three months ended March 31, 2020 was adversely impacted by approximately \$9 million, net of approximately \$2 million of income taxes, primarily due to reduced production levels at our China manufacturing facilities due to the COVID-19 pandemic. The net loss per share was \$0.01 for the three months ended March 31, 2020, compared to a net loss per share of \$0.35 for the three months ended March 31, 2019.

Segment Discussion

The following table summarizes our net sales and income (loss) from operations by our four geographic operating segments for the three months ended March 31, 2020 and 2019 that has been derived from our unaudited condensed consolidated financial statements.

| | Three Months Ended | |
|------------------------|---------------------------|-------------------|
| | March 31, | |
| | 2020 | 2019 |
| | (in thousands) | |
| Net Sales | | |
| U.S. | \$ 47,431 | \$ 41,628 |
| Asia | 91,137 | 68,718 |
| Mexico | 118,250 | 84,665 |
| EMEA | 99,818 | 104,769 |
| Total net sales | \$ 356,636 | \$ 299,780 |

| | Three Months Ended March 31, | |
|---|---------------------------------|--------------------|
| | 2020 | 2019 |
| <u>Income (Loss) from Operations</u> | (in thousands) | |
| U.S. (1) | \$ (15,586) | \$ (14,503) |
| Asia | 5,072 | (8,800) |
| Mexico | (1,768) | (424) |
| EMEAI | (3,122) | 12,071 |
| Total income from operations | <u>\$ (15,404)</u> | <u>\$ (11,656)</u> |

- (1) Includes the costs of our corporate headquarters, our advanced engineering center in Kolding, Denmark and our engineering center in Berlin, Germany totaling \$9.5 million and \$8.0 million for the three months ended March 31, 2020 and 2019, respectively.

U.S. Segment

Net sales for the three months ended March 31, 2020 increased by \$5.8 million or 13.9% to \$47.4 million compared to \$41.6 million in the same period in 2019. Net sales of wind blades increased to \$35.9 million during the three months ended March 31, 2020 as compared to \$31.9 million in the same period of 2019. The increase was primarily due to a higher average sales price due to the mix of wind blade models produced in both periods and a 2% increase in the number of wind blades produced in the three months ended March 31, 2020 as compared to the same period in 2019. There were no net sales from the manufacturing of precision molding and assembly systems during the three months ended March 31, 2020 compared to \$0.1 million during the same period in 2019. Additionally, there was a \$1.9 million increase in transportation and other sales during the three months ended March 31, 2020 as compared to the same period in 2019.

The loss from operations in the U.S. segment for the three months ended March 31, 2020 was \$15.6 million as compared to a loss from operations of \$14.5 million in the same period in 2019. As previously discussed, the loss amounts include corporate general and administrative costs of \$9.5 million and \$8.0 million for the three months ended March 31, 2020 and 2019, respectively. The 2020 operating results were also unfavorably impacted by increased direct labor and direct material costs at our Newton, Iowa blade facility, offset by the decreased costs related to the shutdown of our Newton, Iowa transportation facility and by the higher average sale price of wind blade models produced and wind blade volumes discussed above.

Asia Segment

Net sales for the three months ended March 31, 2020 increased by \$22.4 million or 32.6% to \$91.1 million compared to \$68.7 million in the same period in 2019. Net sales of wind blades were \$85.9 million in the three months ended March 31, 2020 compared to \$62.1 million in the same period of 2019. This increase reflects an increase in the year over year number of wind blades still in the production process at the end of the period as well as an increase in the average sales price of wind blades due to a change in the mix of wind blades between the two periods, notwithstanding a 8% net decrease in overall wind blade volume. Although our Asia net sales increased for the three months ended March 31, 2020 compared to the same period in 2019, our Asia net sales for the three months ended March 31, 2020 were adversely impacted by approximately \$38 million due to reduced production levels at our China manufacturing facilities due to the COVID-19 pandemic. Net sales from the manufacturing of precision molding and assembly systems totaled \$5.1 million during the three months ended March 31, 2020 compared to \$6.2 million during the same period in 2019. The impact of the fluctuating U.S. dollar against the Chinese Renminbi had an unfavorable impact of 0.9% on net sales during the three months ended March 31, 2020 as compared to the same period in 2019.

The income from operations in the Asia segment for the three months ended March 31, 2020 was \$5.1 million as compared to a loss from operations of \$8.8 million in the same period in 2019. This increase was primarily due to the increase in the year over year number of wind blades still in the production process at the end of the period, an increase in the average sales price of wind blades noted above and by the impact of savings in raw material costs. Although our income from operations increased for the three months ended March 31, 2020 compared to the same period in 2019, our income from operations for the three months ended March 31, 2020 was adversely impacted by approximately \$11 million due to reduced production levels at our China manufacturing facilities due to the COVID-19 pandemic. The impact of the fluctuating U.S. dollar against the Chinese Renminbi had a favorable impact of 1.6% on cost of goods sold for the three months ended March 31, 2020 as compared to the same period in 2019.

Mexico Segment

Net sales in the three months ended March 31, 2020 increased by \$33.6 million or 39.7% to \$118.3 million compared to \$84.7 million in the same period in 2019. The increase reflects a 57% net increase in overall wind blade volume which was partially related to the

Matamoros strike during 2019 and an increase in the average sales price of wind blades due to a change in the mix of wind blades between the two periods. Net sales from the manufacturing of precision molding and assembly systems during the three months ended March 31, 2020 were \$1.7 million compared to \$4.8 million during the same period in 2019.

The loss from operations in the Mexico segment for the three months ended March 31, 2020 was \$1.8 million as compared to a loss from operations of \$0.4 million in the same period in 2019. The increase was due primarily to the underutilization of labor at certain of our Juarez facilities, partially offset by the overall increase in wind blade volume noted, a decrease in startup and transition costs as well as from savings in raw material costs. The fluctuating U.S. dollar relative to the Mexican Peso had a favorable impact of 0.6% on cost of goods sold for the three months ended March 31, 2020 as compared to 2019.

EMEA Segment

Net sales during the three months ended March 31, 2020 decreased by \$5.0 million or 4.7% to \$99.8 million compared to \$104.8 million in the same period in 2019. The decrease was driven by a 9% decrease in wind blade volume at our two Turkey plants due to transitions and a decrease in the average sales price of wind blades delivered in the comparative periods. The fluctuating U.S. dollar relative to the Euro had an unfavorable impact of 2.4% on net sales during the three months ended March 31, 2020 as compared to 2019.

The loss from operations in the EMEA segment for the three months ended March 31, 2020 was \$3.1 million as compared to income from operations of \$12.1 million in the same period in 2019. The decrease was primarily driven by increased warranty costs at our second Turkey plant, the decreased wind blade production at our two Turkey plants and the increased startup costs at our India plant and transition costs at our second Turkey plant, partially offset by the favorable impact on cost of goods sold of the fluctuation of the U.S. dollar relative to the Turkish Lira and Euro of 5.7% for the three months ended March 31, 2020 as compared to 2019.

Liquidity and Capital Resources

As a result of the uncertainty relating to: (i) the rapidly evolving nature, magnitude and duration of the COVID-19 pandemic, (ii) the variety of measures implemented by governments around the world to address its effects and (iii) the impact on our manufacturing operations, we are managing our liquidity to ensure our long-term viability until the COVID-19 pandemic abates. During the three months ended March 31, 2020, we drew down \$50.0 million under our Credit Agreement and an additional \$30.0 million in April 2020. In addition, in March 2020, we entered into two unsecured credit facilities with two Turkish financial institutions resulting in aggregate net proceeds of \$16.6 million and availability of \$5.5 million.

Our primary needs for liquidity have been, and in the future will continue to be, capital expenditures, new facility startup costs, the impact of transitions, working capital, debt service costs and warranty costs. Our capital expenditures have been primarily related to machinery and equipment for new facilities or facility expansions. Historically, we have funded our working capital needs through cash flows from operations, the proceeds received from our credit facilities and from proceeds received from the issuance of stock. We had net borrowings on financing arrangements of \$64.9 million for the three months ended March 31, 2020 as compared to net borrowings on financing arrangements of \$17.1 million in the comparable period of 2019. As of March 31, 2020 and December 31, 2019, we had \$207.0 million and \$142.1 million in outstanding indebtedness, excluding debt issuance costs, respectively. As of March 31, 2020, we had an aggregate of \$158.4 million of remaining capacity and \$67.9 million of remaining availability under our various credit facilities. Working capital requirements have increased as a result of our overall growth and the need to fund higher accounts receivable and inventory levels as our business volumes have increased as well as the increased level of transitions. Based upon current and anticipated levels of operations, we believe that cash on hand, available credit facilities and cash flow from operations will be adequate to fund our working capital and capital expenditure requirements and to make required payments of principal and interest on our indebtedness over the next twelve months.

We anticipate that any new facilities and future facility expansions will be funded through cash flows from operations, the incurrence of other indebtedness and other potential sources of liquidity. At March 31, 2020 and December 31, 2019, we had unrestricted cash, cash equivalents and short-term investments totaling \$109.5 million and \$70.3 million, respectively. The March 31, 2020 balance includes \$37.9 million of cash located outside of the United States, including \$21.1 million in Turkey, \$11.5 million in China, \$3.5 million in India, \$1.6 million in Mexico and \$0.2 million in other countries. In February 2020, we entered into an Incremental Facility Agreement with the current lenders to our Credit Agreement and an additional lender, pursuant to which the aggregate principal amount of our revolving credit facility under the Credit Agreement was increased from \$150.0 million to \$205.0 million. Our ability to repatriate funds from China to the United States is subject to a number of restrictions imposed by the Chinese government. We repatriate funds through several technology license and corporate/administrative service agreements. We are compensated quarterly based on agreed upon royalty rates for such intellectual property licenses and quarterly fees for those services. Certain of our subsidiaries are limited in their ability to declare dividends without first meeting statutory restrictions of the People's Republic of China, including retained earnings as determined under Chinese-statutory accounting requirements. Until 50% (\$26.5 million as of December 31, 2019) of registered capital is contributed to a surplus reserve, our Chinese operations can only pay dividends equal to 90% of after-tax profits (10% must be contributed to the surplus reserve). Once the surplus reserve fund requirement is met, our Chinese operations can pay dividends equal to 100% of after-tax profit assuming other conditions are met. At December 31, 2019, the amount of the surplus reserve fund was \$6.6 million.

Operating Cash Flows

| | Three Months Ended | |
|---|--------------------|--------------------|
| | March 31, | |
| | 2020 | 2019 |
| | (in thousands) | |
| Net loss | \$ (492) | \$ (12,104) |
| Depreciation and amortization | 11,028 | 10,659 |
| Realized loss on sale of assets and asset impairments | 1,918 | 2,235 |
| Restructuring charges | 117 | — |
| Share-based compensation expense | 2,942 | 985 |
| Other non-cash items | 56 | 51 |
| Changes in assets and liabilities | (13,001) | (13,917) |
| Net cash provided by (used in) operating activities | <u>\$ 2,568</u> | <u>\$ (12,091)</u> |

Net cash provided by operating activities totaled \$2.6 million for the three months ended March 31, 2020 and was primarily the result of a \$13.0 million in net changes in working capital and a \$0.5 million net loss, mostly offset by \$11.0 million of depreciation and amortization, \$2.9 million of share-based compensation expense and a \$1.9 million realized loss on sale of assets and asset impairments. The key components of the net changes in working capital include a \$32.6 million increase in contract assets and liabilities, a \$17.6 million decrease in accounts payable and accrued expenses, a \$17.4 million increase in other noncurrent assets, a \$4.6 million increase in prepaid expenses and a \$3.5 million increase in inventories. These decreases were mostly offset by a \$50.3 million decrease in accounts receivable, a \$4.6 million decrease in other current assets, a \$3.9 million increase in accrued warranty, a \$2.0 million decrease in operating lease right of use assets and operating lease liabilities and a \$1.9 million increase in other noncurrent liabilities. The changes in contract assets and liabilities, accounts receivable, accounts payable and accrued expenses and accrued warranty are primarily the result of the timing of production in the period.

Net cash used in operating activities totaled \$12.1 million for the three months ended March 31, 2019 and was primarily the result of a \$13.9 million net decrease in assets and liabilities and a \$12.1 million net loss, partially offset by \$10.7 million of depreciation and amortization, \$2.2 million loss on sale of assets and \$1.0 million of share-based compensation expense. The key components of the net decrease in assets and liabilities include a \$17.2 million increase in prepaid expenses and other current assets, a \$15.9 million increase in contract assets and liabilities and a \$14.1 million increase in other noncurrent assets. These decreases were partially offset by a \$17.8 million increase in accounts payable and accrued expenses, an \$8.5 million decrease in accounts receivable, a \$4.2 million decrease in operating lease right of use assets and operating lease liabilities and a \$2.8 million increase in accrued warranty. The changes in contract assets and liabilities, accounts receivable, accounts payable and accrued expenses and accrued warranty are primarily the result of the timing of production in the period.

Investing Cash Flows

| | Three Months Ended | |
|--|--------------------|--------------------|
| | March 31, | |
| | 2020 | 2019 |
| | (in thousands) | |
| Purchases of property, plant and equipment | \$ (26,983) | \$ (18,709) |
| Net cash used in investing activities | <u>\$ (26,983)</u> | <u>\$ (18,709)</u> |

Net cash used in investing activities totaled \$27.0 million and \$18.7 million for the three months ended March 31, 2020 and 2019, respectively, driven primarily by capital expenditures for new facilities and expansion or improvements at existing facilities. The capital expenditures for the three months ended March 31, 2020 primarily related to our new manufacturing facilities in Chennai, India and Yangzhou, China, our second manufacturing facility in Turkey and continued investments in our other existing facilities. The capital expenditures for the three months ended March 31, 2019 primarily related to our new manufacturing facility in Yangzhou, China, our second manufacturing facility in Turkey, our new tooling facility and the expansion of one of our blade manufacturing facilities in Juárez, Mexico and continued investments in our other existing facilities.

We anticipate fiscal year 2020 capital expenditures of between \$80 million to \$90 million and we estimate that the cost that we will incur after March 31, 2020 to complete our current projects in process will be approximately \$16.4 million. We are deferring non-critical capital expenditures in light of the COVID-19 uncertainty. We have used, and will continue to use, cash flows from operations, the proceeds received from our credit facilities and the proceeds received from the issuance of stock for major projects currently being

undertaken, which include new manufacturing facilities in Chennai, India, the continued investment in our existing Tukey, Mexico and China facilities as well as in our pilot line in Warren, Rhode Island.

Financing Cash Flows

| | Three Months Ended | |
|--|--------------------|------------------|
| | March 31, | |
| | 2020 | 2019 |
| | (in thousands) | |
| Proceeds from revolving loans | \$ 50,000 | \$ 6,000 |
| Net proceeds (repayments) of accounts receivable financing | (101) | 13,208 |
| Proceeds from working capital loans | — | 2,228 |
| Principal repayments of finance leases | (1,492) | (2,929) |
| Net proceeds (repayments) of other debt | 16,505 | (1,445) |
| Debt issuance costs | (183) | — |
| Proceeds from exercise of stock options | 812 | 4,572 |
| Repurchase of common stock including shares withheld in lieu of income taxes | (459) | (559) |
| Net cash provided by financing activities | <u>\$ 65,082</u> | <u>\$ 21,075</u> |

The net cash provided by financing activities totaled \$65.1 million for the three months ended March 31, 2020 compared to \$21.1 million of net cash provided by financing activities in the comparable period of 2019. Net cash provided by financing activities for the three months ended March 31, 2020 primarily reflects the net proceeds from revolving loans and other growth-related debt, partially offset by principal repayments of finance leases. Net cash provided by financing activities for the three months ended March 31, 2019 primarily reflects the net proceeds from accounts receivable financing and revolving loans, proceeds from the exercise of stock options and proceeds from working capital loans, partially offset by principal repayments of finance leases and other debt.

Share Repurchases

During the three months ended March 31, 2020, we repurchased 26,099 shares of our common stock for \$0.5 million related to tax withholding requirements on restricted stock units which vested during the period.

Description of Our Indebtedness

Senior Financing Agreements (U.S.):

In April 2018, we entered into a new credit agreement (the Credit Agreement) with four lenders consisting of a multi-currency, revolving credit facility in an aggregate principal amount of \$150.0 million, including a \$25.0 million letter of credit sub-facility. On the closing date we drew down \$75.4 million on the revolving credit facility in connection with the closing of the transactions contemplated by the Credit Agreement and used the proceeds to pay all outstanding amounts due and payable under our previous credit agreement, various fees and expenses and accrued interest. All borrowings and amounts outstanding under the Credit Agreement are scheduled to mature in April 2023. In May 2019, the Credit Agreement was further amended to revise the definition of Consolidated EBITDA as utilized in certain of the financial covenants of the Credit Agreement.

In connection with the Credit Agreement, in the second quarter of 2018 we expensed \$2.0 million of deferred financing costs associated with the previous credit agreement and a \$1.4 million prepayment penalty within the caption “Loss on extinguishment of debt” in the condensed consolidated statement of operations. In addition, we incurred debt issuance costs related to the Credit Agreement totaling \$1.0 million which will be amortized to interest expense over the five-year term of the Credit Agreement using the effective interest method.

Interest accrues at a variable rate equal to LIBOR plus a margin of 1.50% (2.4% as of March 31, 2020), which may vary based on our total net leverage ratio as defined in the Credit Agreement. Interest is paid monthly and we are not obligated to make any principal repayments prior to the maturity date provided we are not in default under the Credit Agreement. We may prepay the borrowings under the Credit Agreement without penalty.

In April 2018, we also entered into an interest rate swap arrangement to fix a notional amount of \$75.0 million of the Credit Agreement at an effective interest rate of 4.2% for a period of five years. See Note 1, *Summary of Operations and Significant Accounting Policies - Financial Instruments*, for more details on this interest rate swap arrangement.

In February 2020, we entered into an Incremental Facility Agreement with the current lenders to our Credit Agreement and an additional lender, pursuant to which the aggregate principal amount of our revolving credit facility under the Credit Agreement was increased from \$150.0 million to \$205.0 million. All other material terms and conditions of the Credit Agreement remained the same. In connection with this Incremental Facility Agreement, we incurred additional debt issuance costs totaling \$0.2 million which will be amortized to interest expense over the remaining term of the Credit Agreement using the effective interest method.

As of March 31, 2020 and December 31, 2019, there was \$162.4 million and \$112.4 million outstanding under the Credit Agreement, respectively.

Due to the revolving credit facility's variable interest rate of LIBOR plus a competitive spread, we estimate that fair-value approximates the face value of these notes.

As a result of the uncertainty relating to: (i) the rapidly evolving nature, magnitude and duration of the COVID-19 pandemic, (ii) the variety of measures implemented by governments around the world to address its effects and (iii) the impact on our manufacturing operations, we are managing our liquidity to ensure our long-term viability until the COVID-19 pandemic abates. During the three months ended March 31, 2020, we drew down \$50.0 million under our Credit Agreement and an additional \$30.0 million in April 2020.

Accounts Receivable, Secured and Unsecured Financing:

EMEA: During 2014, we renewed a general credit agreement, as amended, with a financial institution in Turkey to provide up to 21.0 million Euro of short-term collateralized financing on invoiced accounts receivable of one of our customers in Turkey. Interest originally accrued annually at a fixed rate of 9.1% and was paid quarterly. In December 2014, and later amended, we obtained an additional \$8.0 million of unsecured financing in Turkey under the credit agreement, with interest accruing annually at a fixed rate of 5.0% and payable at the end of the term when the loan is repaid. All other credit agreement terms remained the same. The credit agreement does not have a maturity date, however the limits are reviewed in September of each year. During the fourth quarter of 2018, we replaced the accounts receivable financing facility with the accounts receivable assignment agreement discussed below. As of March 31, 2020 and December 31, 2019, there were no amounts outstanding under the unsecured financing facility.

In 2014, we entered into a credit agreement with a Turkish financial institution to provide up to \$16.0 million of short-term financing of which \$10.0 million is collateralized financing on invoiced accounts receivable of one of our customers in Turkey, \$5.0 million is unsecured financing and \$1.0 million is related to letters of guarantee. Interest accrues at a variable rate of the three month Euro Interbank Offered Rate (EURIBOR) plus 6.5%. During the first quarter of 2018, the collateralized financing on invoiced accounts receivables and unsecured financing facilities were retired and the letters of guarantee limit was adjusted, later amended to 1.4 million Euro (approximately \$1.5 million as of March 31, 2020). No amounts were outstanding under this letter of guarantee agreement as of March 31, 2020 and December 31, 2019.

In 2016, we entered into a general credit agreement, as amended, with a Turkish financial institution to provide up to 39.0 million Euro (approximately \$43.1 million as of March 31, 2020) of short-term financing of which 28.0 million Euro (approximately \$31.0 million as of March 31, 2020) is collateralized financing based on invoiced accounts receivables of one of our customers in Turkey, 10.0 million Euro (approximately \$11.0 million as of March 31, 2020) for the collateralized financing of capital expenditures and 1.0 million Euro (approximately \$1.1 million as of March 31, 2020) related to letters of guarantee. Interest on the collateralized financing based on invoiced accounts receivables of one of our customers in Turkey accrues at a fixed rate of 2.0% as of March 31, 2020 and is paid quarterly with a maturity date equal to four months from the applicable invoice date. Interest on the collateralized capital expenditures financing accrues at the one month EURIBOR plus 6.75% (6.75% as of March 31, 2020) with monthly principal repayments beginning in October 2017 with a final maturity date of December 2021. Interest on the letters of guarantee accrues at 2.00% annually with an amended final maturity date of July 2020. As of March 31, 2020 and December 31, 2019, there was \$6.8 million and \$7.9 million outstanding under the collateralized financing of capital expenditures line, respectively. Additionally, as of March 31, 2020 and December 31, 2019, there was \$3.7 million and \$3.8 million, respectively, outstanding under the collateralized financing based on invoiced accounts receivables.

In the fourth quarter of 2018, we entered into a credit agreement, as amended, with a Turkish financial institution to provide up to 118.6 million Turkish Lira (approximately \$18.2 million as of March 31, 2020) of collateralized financing on invoiced accounts receivable of one of our customers in Turkey. Interest accrued at a fixed rate of 3.9% and was to be paid quarterly. The credit agreement did not have a maturity date, however the limit would be reviewed in October of each year. In September 2019 this credit agreement was cancelled. Subsequently, in the first quarter of 2020, as a replacement to the original credit agreement, we entered into an unsecured financing facility with the same Turkish financial institution to provide up to 64.0 million Turkish Lira (approximately \$9.8 million as of March 31, 2020). Interest accrues at a fixed rate of 2.5% and is to be paid quarterly. The credit agreement does not have a maturity date, however the limit would be reviewed in October of each year. All of the other terms of the original credit agreement remained the same.

In the fourth quarter of 2019, we entered into a credit agreement with a Turkish financial institution to provide up to 10.0 million Euro (approximately \$11.0 million as of March 31, 2020) of unsecured financing. Interest accrues at a fixed rate of 3.75% and is payable at the end of the term when the loan is repaid. As of March 31, 2020, there was \$1.1 million outstanding under this credit agreement. No amounts were outstanding under this agreement as of December 31, 2019.

In the first quarter of 2020, we entered into a credit agreement with a Turkish financial institution to provide up to 15.0 million Euro (approximately \$16.6 million as of March 31, 2020) of unsecured financing. Interest accrues at a fixed rate of 2.25% and is payable at the end of the term when the loan is repaid. As of March 31, 2020, there was \$16.6 million outstanding under this credit agreement.

In the first quarter of 2020, we entered into a credit agreement with a Turkish financial institution to provide up to 5.0 million Euro (approximately \$5.5 million as of March 31, 2020) of unsecured financing. Interest accrues at a fixed rate of 3.5% and is payable at the end of the term when the loan is repaid. As of March 31, 2020, there were no amounts outstanding under this credit agreement.

Due to the short-term nature of the unsecured financings in the EMEAI segment, we estimate that fair-value approximates the face value of the notes.

Asia: In February 2017, we entered into a credit agreement, as amended, with a Chinese financial institution to provide an unsecured credit line of up to 210.0 million Renminbi (approximately \$30.5 million as of June 30, 2019) which can be used for the purpose of domestic and foreign currency loans, issuing customs letters of guarantee or other transactions approved by the lender. Interest on the credit line accrues at the Chinese central bank interest rate plus an applicable margin (4.8% as of June 30, 2019) and can be paid monthly, quarterly or at the time of the debt's maturity (extended to January 2020). In August 2019, except as noted below, we replaced this credit agreement with the credit agreement discussed below. In connection with the August 2019 transaction, the financial institution agreed to allow the working capital loans which were then outstanding, totaling 5.0 million Renminbi (or approximately \$0.7 million as of September 30, 2019) to be repaid on their due date of October 1, 2019.

In August 2019, we entered into a credit agreement with a Chinese financial institution to provide an unsecured credit line of up to 315.0 million Renminbi (approximately \$44.5 million as of March 31, 2020) related to two of our China facilities which can be used for the purpose of issuing customs letters of guarantee and covering the related deposits on such letters of guarantee, project financing and certain other transactions approved by the lender. Interest on the credit line accrues at the Chinese central bank interest rate plus an applicable margin (4.8% as of March 31, 2020) and can be paid monthly, quarterly or at the time of the debt's maturity (August 2021). As of March 31, 2020, there were 10.1 million Renminbi (approximately \$1.4 million) of letters of guarantee and related deposits used for customs clearance outstanding. As of December 31, 2019, there were 25.7 million Renminbi (approximately \$3.7 million) of letters of guarantee and related deposits used for customs clearance outstanding.

In March 2018, we entered into a credit agreement, as amended, with a Chinese financial institution to provide an unsecured credit line of up to 100.0 million Renminbi (approximately \$14.1 million as of March 31, 2020) which can be used as customs letters of guarantee. Interest on the credit line accrues at the Chinese central bank interest rate plus an applicable margin (4.8% at March 31, 2020) and can be paid monthly, quarterly or at the time of the debt's maturity (in March 2023). As of March 31, 2020, there were 71.9 million Renminbi (approximately \$10.1 million) of letters of guarantee used for customs clearance outstanding. As of December 31, 2019, there were 71.9 million Renminbi (approximately \$10.3 million) of letters of guarantee used for customs clearance outstanding.

Equipment Leases and Other Arrangements: We have entered into certain finance lease, sale-leaseback and equipment financing arrangements in the U.S., Mexico and EMEAI for equipment used in our operations as well as for office use. These leases bear interest at rates ranging from 3.0% to 9.0% annually, and principal and interest are payable monthly. As of March 31, 2020 and December 31, 2019, there was an aggregate total of \$16.3 million and \$17.9 million outstanding under these arrangements, respectively.

Operating Leases: We lease various facilities and equipment under non-cancelable operating lease agreements. As of March 31, 2020, we leased a total of approximately 6.8 million square feet in Dafeng, China; Yangzhou, China; Chennai, India; Izmir, Turkey; Kolding, Denmark; Berlin, Germany; Newton, Iowa; Juárez, Mexico; Matamoros, Mexico; Santa Teresa, New Mexico; Warren, Rhode Island, as well as our corporate office in Scottsdale, Arizona. The terms of these leases range from 12 months to 180 months with annual payments approximating \$30 million for the full year 2020.

Off-Balance Sheet Transactions

We are not presently involved in any off-balance sheet arrangements, including transactions with unconsolidated special-purpose or other entities that would materially affect our financial position, results of operations, liquidity or capital resources, other than our accounts receivable assignment agreements described below. Furthermore, we do not have any relationships with special-purpose or other entities that provide off-balance sheet financing; liquidity, market risk or credit risk support; or engage in leasing or other services that may expose us to liability or risks of loss that are not reflected in consolidated financial statements and related notes.

Our Mexico segment has an existing accounts receivable assignment agreement with a financial institution under which the financial institution buys, on a non-recourse basis, the accounts receivable amounts related to one of our Mexico segment's customers at a discount calculated based on an effective annual rate of LIBOR plus 2.75%.

In September 2018, our U.S. and Mexico segments entered into an accounts receivable assignment agreement, as amended, with a financial institution. Under this agreement, the financial institution buys, on a non-recourse basis, the accounts receivable amounts related to one of our U.S. (Iowa location) and Mexico segment's customers at a discount calculated based on LIBOR plus 1.25%.

In the fourth quarter of 2018, our EMEAI segment entered into an accounts receivable assignment agreement with a financial institution. Under this agreement, the financial institution may buy, on a non-recourse revolving basis, up to 15.0 million Euro (approximately \$16.6 million as of March 31, 2020) of the accounts receivable amounts related to one of our EMEAI segment's customers at a discount calculated based on EURIBOR plus 2.65%. During the first quarter of 2020, this program was discontinued by the financial institution.

In the fourth quarter of 2018, our EMEAI segment entered into an accounts receivable assignment agreement with a financial institution. Under this agreement, the financial institution buys, on a non-recourse basis, the accounts receivable amounts related to one of our EMEAI segment's customers at a discount calculated based on EURIBOR plus 0.75%.

In the first quarter of 2019, our Asia and Mexico segments entered into separate accounts receivable purchase agreements, as amended, with a financial institution. Under these agreements, the financial institution may buy, on a non-recourse basis, and hold outstanding at any time up to \$60.0 million of a customer's accounts receivable amounts in our Asia segment and up to \$50.0 million of a customer's accounts receivable amounts in our Mexico segment at a discount calculated based on the three month LIBOR plus 1.0% and the number of days from the date of purchase to maturity.

In the second quarter of 2019, our Asia segment entered into an accounts receivable purchase agreement, as amended, with a financial institution. Under this agreement, the financial institution may buy, on a non-recourse basis, and hold outstanding at any time up to \$45.0 million of a customer's accounts receivable amounts in our Asia segment at a discount calculated based on the three month LIBOR plus 1.0% and the number of days from the date of purchase to maturity.

In the fourth quarter of 2019, our Asia segment entered into an accounts receivable purchase agreement, as amended, with a financial institution. Under this agreement, the financial institution may buy, on a non-recourse basis, and hold outstanding at any time an unlimited amount of a customer's accounts receivable amounts in our Asia segment at a discount calculated based on a fixed rate of 4.05% and the number of days from the date of purchase to maturity.

As the receivables are purchased by the financial institutions under the agreements as described in the preceding paragraphs, the receivables were removed from our balance sheet. During the three months ended March 31, 2020, \$224.2 million of receivables were sold under the accounts receivable assignment agreements described above.

Critical Accounting Policies and Estimates

There have been no other significant changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 1, *Recently Issued Accounting Pronouncements* to our condensed consolidated financial statements.

Contractual Obligations

During the three months ended March 31, 2020, there have been no material changes to the contractual obligations reported in our Annual Report on Form 10-K, other than in the ordinary course of business.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk in the ordinary course of our business. These market risks are principally limited to changes in foreign currency exchange rates and commodity prices. We currently do not hedge our exposure to these risks.

Foreign Currency Risk. We conduct international operations in China, Mexico, Turkey and India. Our results of operations are subject to both currency transaction risk and currency translation risk. We incur currency transaction risk whenever we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. With respect to currency translation risk, our financial condition and results of operations are measured and recorded in the relevant domestic currency and then translated into U.S. dollars for inclusion in our condensed consolidated financial statements. In recent years, exchange rates between these foreign currencies and the U.S. dollar have fluctuated significantly and may do so in the future. A hypothetical change of 10% in the exchange rates for the countries above would have resulted in a change to income from operations of approximately \$4.9 million for the three months ended March 31, 2020.

Commodity Price Risk. We are subject to commodity price risk under agreements for the supply of our raw materials. We have not hedged our commodity price exposure. We generally lock in pricing for our key raw materials for 12 months which protects us from price increases within that period. As many of our raw material supply agreements have meet or release clauses, if raw materials prices go down, we are able to benefit from the reductions in price. We believe that this adequately protects us from increases in raw material prices and also enables us to take full advantage of decreases.

Resin and resin systems are the primary commodities for which we do not have fixed pricing. Approximately 40% of the resin and resin systems we use are purchased under contracts controlled by two of our customers and therefore they receive/bear 100% of any increase or decrease in resin costs further limiting our exposure to price fluctuations. We believe that a 10% change in the price of resin and resin systems for the customers in which we are exposed to fluctuating prices would have had an impact to income from operations of approximately \$2.7 million for the three months ended March 31, 2020. Furthermore, this amount does not include the portion of any increase or decrease that would be shared with our customers under our long-term supply agreements, which is generally 70%.

Interest Rate Risk. As of March 31, 2020, our EMEAI segment has one general credit agreement with a Turkish financial institution which is tied to EURIBOR. This agreement had collateralized financing of capital expenditures outstanding as of March 31, 2020 of \$6.8 million. In addition, as of March 31, 2020, our Credit Agreement includes interest on the unhedged principal amount of \$87.4 million which is tied to LIBOR. The EMEAI and our Credit Agreement noted above are the only variable rate debt that we had outstanding as of March 31, 2020 as all remaining working capital loans, accounts receivable financing, unsecured financing and capital lease obligations are fixed rate instruments and are not subject to fluctuations in interest rates. Due to the relatively low LIBOR and EURIBOR rates in effect as of March 31, 2020, a 10% change in the LIBOR or EURIBOR rate would not have had a material impact on our future earnings, fair values or cash flows.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized, and reported within the time period specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) promulgated under the Exchange Act, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the design and operating effectiveness as of March 31, 2020 of our disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2020.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are party to various lawsuits, claims, and other legal proceedings that arise in the ordinary course of business, some of which are covered by insurance. Upon resolution of any pending legal matters, we may incur charges in excess of presently established reserves or our insurance policy limits. Our management does not believe that any such charges would, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

Except as noted below, there have been no material changes to the Risk Factors (Part I, Item 1A) in our Annual Report on Form 10-K, which could materially affect our business, financial condition, and/or future results.

Our business, operations and financial condition have been adversely affected by the COVID-19 pandemic and we cannot estimate the duration and magnitude of the COVID-19 pandemic on our business, operations and financial condition at this time.

The COVID-19 pandemic has adversely affected our business and operations for the quarter ended March 31, 2020 due primarily to reduced production levels at our China manufacturing facilities. Although our manufacturing facilities in China, Turkey and Rhode Island have now returned to normal production levels, several of our other manufacturing facilities have been required to temporarily suspend production or operate at reduced production levels due primarily to certain applicable government-mandated stay at home orders in response to the COVID-19 pandemic, demands from certain of our labor unions to suspend or reduce production and general safety concerns of our associates. Our manufacturing facilities in India and Matamoros, Mexico are operating at limited production levels, our manufacturing facilities in Juárez, Mexico are temporarily shutdown and our manufacturing facility in Iowa restarted production at a limited production level on May 6, 2020 after a temporarily shutdown. In addition, although we currently have not experienced any significant disruptions in our global supply chain due to the COVID-19 pandemic, our global supply chain may in the future be adversely affected if the COVID-19 pandemic persists. As a result of the uncertainty relating to: (i) the rapidly evolving nature, magnitude and duration of the COVID-19 pandemic, (ii) the variety of measures implemented by governments around the world to address its effects and (iii) the impact on our manufacturing operations, we cannot predict how long we will be required to continue to operate at reduced production levels across many of our manufacturing facilities. We also cannot quantify the total impact of the COVID-19 pandemic on our business, results of operations and financial condition for the balance of 2020 in light of such uncertainty.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table summarizes the total number of shares of our common stock that we repurchased during the three months ended March 31, 2020 from certain employees who surrendered common stock to pay the taxes in connection with the vesting of restricted stock units.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares That May Yet Be Purchased Under the Program |
|-------------------------------------|----------------------------------|------------------------------|--|--|
| January (January 1 - January 31) | — | \$ — | — | — |
| February (February 1 - February 29) | — | — | — | — |
| March (March 1 - March 31) | 26,099 | 17.61 | — | — |
| Total | 26,099 | \$ 17.61 | — | — |

Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

None.

Item 6. Exhibits

| <u>Exhibit Number</u> | <u>Exhibit Description</u> |
|-----------------------|---|
| 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 |
| 32.1* | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2* | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document (filed herewith) |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith) |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith) |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document (filed herewith) |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith) |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*) (filed herewith) |

* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 7, 2020

TPI COMPOSITES, INC.

By: /s/ Bryan Schumaker

Bryan Schumaker

Chief Financial Officer

(Principal Financial and Accounting Officer)

CERTIFICATION

I, Steven C. Lockard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TPI Composites, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2020

By: /s/ Steven C. Lockard

Steven C. Lockard

Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Bryan Schumaker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TPI Composites, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2020

By: /s/ Bryan Schumaker
Bryan Schumaker
Chief Financial Officer
(Principal Financial and Accounting Officer)

**Certification Pursuant To
18 U.S.C. Section 1350,
As Adopted Pursuant To
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Steven C. Lockard, Chief Executive Officer of TPI Composites, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the report on Form 10-Q of TPI Composites, Inc. for the three months ended March 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or 78o(d)); and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of TPI Composites, Inc.

Date: May 7, 2020

By: /s/ Steven C. Lockard
Steven C. Lockard
Chief Executive Officer
(Principal Executive Officer)

**Certification Pursuant To
18 U.S.C. Section 1350,
As Adopted Pursuant To
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Bryan Schumaker, Chief Financial Officer of TPI Composites, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the report on Form 10-Q of TPI Composites, Inc. for the three months ended March 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or 78o(d)); and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of TPI Composites, Inc.

Date: May 7, 2020

By: /s/ Bryan Schumaker
Bryan Schumaker
Chief Financial Officer
(Principal Financial and Accounting Officer)