
**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 June 30, 2017

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)

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

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

Large accelerated filer Accelerated filer

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

Emerging growth company

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 7(a)(2)(B) of the Securities 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 August 4, 2017, there were 33,886,088 shares of common stock outstanding.

TPI COMPOSITES, INC. AND SUBSIDIARIES

INDEX

	Page	
<u>PART I. FINANCIAL INFORMATION</u>		
ITEM 1.	Condensed Consolidated Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016	1
	Condensed Consolidated Income Statements for the Three and Six Months Ended June 30, 2017 and 2016	2
	Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016	3
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016	4
	Notes to Unaudited Condensed Consolidated Financial Statements	5
ITEM 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	31
ITEM 4.	Controls and Procedures	32
<u>PART II. OTHER INFORMATION</u>		
ITEM 1.	Legal Proceedings	33
ITEM 1A.	Risk Factors	33
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
ITEM 3.	Defaults Upon Senior Securities	33
ITEM 4.	Mine Safety Disclosures	33
ITEM 5.	Other Information	33
ITEM 6.	Exhibits	34
<u>SIGNATURES</u>		35

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. 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:

- growth of the wind energy market and our addressable market;
- the potential impact of General Electric’s acquisition of LM Wind Power upon our business;
- 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;
- 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;
- competition from other wind blade and wind blade turbine manufacturers;
- the discovery of defects in our products;
- our ability to successfully expand in our existing markets and into new international markets;
- worldwide economic conditions and their impact on customer demand;
- our ability to effectively manage our growth strategy and future expenses;
- 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; and
- the attraction and retention of qualified employees and key personnel.

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 17, 2017 (the Annual Report on Form 10-K) 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. 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)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 130,834	\$ 119,066
Restricted cash	2,783	2,259
Accounts receivable (Note 3)	117,202	67,842
Inventories	59,753	53,095
Inventories held for customer orders	56,974	52,308
Prepaid expenses and other current assets	25,487	30,657
Total current assets	<u>393,033</u>	<u>325,227</u>
Property, plant, and equipment, net	112,432	91,166
Other noncurrent assets	14,432	20,813
Total assets	<u>\$ 519,897</u>	<u>\$ 437,206</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 149,285	\$ 112,281
Accrued warranty	25,873	19,912
Deferred revenue (Note 3)	74,255	69,568
Customer deposits and customer advances	8,663	1,390
Current maturities of long-term debt	38,511	33,403
Total current liabilities	<u>296,587</u>	<u>236,554</u>
Long-term debt, net of debt issuance costs and current maturities	89,852	89,752
Other noncurrent liabilities	4,222	4,393
Total liabilities	<u>390,661</u>	<u>330,699</u>
Commitments and contingencies (Note 10)		
Shareholders' equity: (Note 3)		
Preferred shares, \$0.01 par value, 5,500 shares authorized, no shares issued or outstanding at June 30, 2017 and December 31, 2016	—	—
Common shares, \$0.01 par value, 100,000 shares authorized and 33,737 shares issued and outstanding at June 30, 2017 and December 31, 2016	337	337
Paid-in capital	297,653	292,833
Accumulated other comprehensive loss	(2,285)	(3,862)
Accumulated deficit	(166,469)	(182,801)
Total shareholders' equity	<u>129,236</u>	<u>106,507</u>
Total liabilities and shareholders' equity	<u>\$ 519,897</u>	<u>\$ 437,206</u>

See accompanying notes to unaudited condensed consolidated financial statements.

TPI COMPOSITES, INC. AND SUBSIDIARIES

Condensed Consolidated Income Statements
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)			
Net sales (Note 3)	\$ 248,186	\$ 194,255	\$ 439,788	\$ 370,365
Cost of sales	203,095	168,382	370,518	328,248
Startup and transition costs	10,540	3,055	16,699	6,361
Total cost of goods sold	<u>213,635</u>	<u>171,437</u>	<u>387,217</u>	<u>334,609</u>
Gross profit	34,551	22,818	52,571	35,756
General and administrative expenses	10,752	5,340	19,058	10,089
Income from operations	<u>23,799</u>	<u>17,478</u>	<u>33,513</u>	<u>25,667</u>
Other income (expense):				
Interest income	11	28	30	49
Interest expense	(2,935)	(4,134)	(5,961)	(8,046)
Realized loss on foreign currency remeasurement	(1,233)	(18)	(2,614)	(457)
Miscellaneous income	258	154	578	344
Total other expense	<u>(3,899)</u>	<u>(3,970)</u>	<u>(7,967)</u>	<u>(8,110)</u>
Income before income taxes	19,900	13,508	25,546	17,557
Income tax provision	<u>(6,042)</u>	<u>(1,953)</u>	<u>(8,143)</u>	<u>(4,256)</u>
Net income	13,858	11,555	17,403	13,301
Net income attributable to preferred shareholders	—	2,438	—	4,875
Net income attributable to common shareholders	<u>\$ 13,858</u>	<u>\$ 9,117</u>	<u>\$ 17,403</u>	<u>\$ 8,426</u>
Weighted-average common shares outstanding:				
Basic	33,737	4,238	33,737	4,238
Diluted	33,828	4,244	33,827	4,244
Net income per common share:				
Basic	\$ 0.41	\$ 2.15	\$ 0.52	\$ 1.99
Diluted	\$ 0.41	\$ 2.15	\$ 0.51	\$ 1.99

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)			
Net income	\$ 13,858	\$ 11,555	\$ 17,403	\$ 13,301
Other comprehensive income:				
Foreign currency translation adjustments	1,300	(1,253)	1,577	(825)
Comprehensive income	<u>\$ 15,158</u>	<u>\$ 10,302</u>	<u>\$ 18,980</u>	<u>\$ 12,476</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 17,403	\$ 13,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,483	6,173
Share-based compensation expense	3,751	—
Amortization of debt issuance costs	286	830
Amortization of debt discount	—	1,509
Changes in assets and liabilities:		
Accounts receivable	(49,360)	(14,643)
Inventories	(11,324)	(2,368)
Prepaid expenses and other current assets	5,170	(9,614)
Other noncurrent assets	7,111	(2,527)
Accounts payable and accrued expenses	34,633	196
Accrued warranty	5,961	16,977
Customer deposits	7,273	(261)
Deferred revenue	4,687	136
Other noncurrent liabilities	(141)	466
Net cash provided by operating activities	<u>33,933</u>	<u>10,175</u>
Cash flows from investing activities:		
Purchase of property and equipment	(26,727)	(14,244)
Net cash used in investing activities	<u>(26,727)</u>	<u>(14,244)</u>
Cash flows from financing activities:		
Repayment of term loan	(1,875)	—
Net proceeds from (repayments of) accounts receivable financing	5,182	(8,565)
Net repayments of working capital loans	(4,638)	(764)
Net proceeds from (repayments of) other debt	6,253	(2,664)
Proceeds from customer advances	—	2,000
Restricted cash	(524)	(648)
Net cash provided by (used in) financing activities	<u>4,398</u>	<u>(10,641)</u>
Impact of foreign exchange rates on cash and cash equivalents	164	(150)
Net change in cash and cash equivalents	11,768	(14,860)
Cash and cash equivalents, beginning of year	119,066	45,917
Cash and cash equivalents, end of period	<u>\$ 130,834</u>	<u>\$ 31,057</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 5,866	\$ 4,864
Cash paid for income taxes, net	9,982	4,188
Supplemental disclosures of noncash investing and financing activities:		
Accrued capital expenditures in accounts payable	5,002	2,198

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 LCS Holding, Inc. and then changed its corporate name to TPI Composites, Inc. in 2008. Today, the Company is headquartered in Scottsdale, Arizona and has expanded its global footprint to include domestic facilities in Newton, Iowa; Fall River, Massachusetts; Warren, Rhode Island and Santa Teresa, New Mexico and international facilities in Dafeng, China; Taicang Port, China; Taicang City, China; Juárez, Mexico and Izmir, Turkey. In April 2017, the Company entered into a new lease agreement with a third party for a new manufacturing facility in Matamoros, Mexico, and the Company expects to commence operations at this facility in the first half of 2018.

Initial Public Offering and Stock Split

In July 2016, the Company completed an initial public offering (IPO) of 7,187,500 shares of the Company's common stock at a price of \$11.00 per share, which included 937,500 shares issued pursuant to the underwriters' over-allotment option. Certain of the Company's existing shareholders, a director and executive officers purchased an aggregate of 1,250,000 shares of common stock in the IPO included in the total issuance above. The net proceeds from the IPO were \$67.2 million after deducting underwriting discounts and offering expenses. Immediately prior to the closing of the IPO, all shares of the then-outstanding redeemable preferred shares converted into an aggregate of 21,110,204 shares of common stock and the redeemable preferred share warrants converted on a net issuance basis into 120,923 shares of common stock. In addition, concurrent with the closing of the IPO, certain subordinated convertible promissory notes in the aggregate principal and interest amount of \$11.9 million were converted into 1,079,749 shares of common stock at the public offering price of \$11.00 per share.

Prior to the IPO, in July 2016 the Company amended its amended and restated certificate of incorporation to effect a 360-for-1 forward stock split of its common stock. As a result of the stock split, the Company has adjusted the share amounts authorized and issuable under the share-based compensation plans. All share and per share common stock information (including the share-based compensation plans) referenced throughout the unaudited condensed consolidated financial statements and notes thereto have been retroactively adjusted to reflect this stock split. The stock split did not cause an adjustment to the par value of the authorized shares of common stock.

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

Secondary Public Offering

In May 2017, the Company completed a secondary public offering of 5,075,000 shares of its common stock at a price of \$16.35 per share, which included 575,000 shares issued pursuant to the underwriters' option to purchase additional shares. All of the shares were sold by existing shareholders and certain executive officers of the Company. The selling shareholders received all of the net proceeds of \$78.8 million from the secondary public offering. The Company did not sell any shares and did not receive any of the proceeds from the offering and the costs paid by the Company in connection with the offering of \$0.8 million were recorded in general and administrative costs in the accompanying condensed consolidated income statement.

Basis of Presentation

The Company divides its business operations into four geographic operating segments—the United States, Asia, Mexico and Europe, the Middle East and Africa (EMEA) as follows:

- The U.S. segment includes (1) the manufacturing of wind blades at the Newton, Iowa plant, (2) the manufacturing of precision molding and assembly systems used for the manufacture of wind blades in the Warren, Rhode Island facility, (3) the manufacturing of composite solutions for the transportation industry, which the Company also conducts in its Rhode Island and Massachusetts facilities and (4) its corporate headquarters, the costs of which are included in general and administrative expenses.
- The Asia segment includes (1) the manufacturing of wind blades at a facility in Taicang Port, China and at its two facilities in Dafeng, China, (2) the manufacturing of precision molding and assembly systems in the Taicang City, China facility, (3) the manufacture of components in a second Taicang Port, China facility and (4) wind blade inspection and repair services.
- The Mexico segment manufactures wind blades from three facilities in Juárez, Mexico, one of which commenced operations in 2014, the second during the third quarter of 2016 and the third in January 2017. In April 2017, the Company entered into a new lease agreement with a third party for a new manufacturing facility in Matamoros, Mexico, and the Company expects to commence operations at this facility in the first half of 2018.
- The EMEA segment manufactures wind blades from two facilities in Izmir, Turkey. The Company entered into a joint venture in 2012 to produce wind blades at the first Turkey plant and in 2013 became the sole owner of the Turkey operation with the acquisition of the remaining 25% interest. The EMEA segment commenced operations in the second facility during the third quarter of 2016.

The accompanying consolidated financial statements include the accounts of TPI Composites, Inc. and all majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

The condensed consolidated financial statements included herein have been prepared by the Company 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, 2016 included in the Company's 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 the Company believes 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 management, all normal recurring adjustments necessary to present fairly the Company's financial position at June 30, 2017, and the results of the Company's operations, comprehensive income and cash flows for the periods presented. The Company derived the December 31, 2016 condensed consolidated balance sheet data from audited financial statements, but does not include all disclosures required by GAAP. Interim results for the three and six months ended June 30, 2017 and 2016 are not necessarily indicative of the results to be expected for the full years.

Warranty Expense

The Company provides a limited warranty for its mold and wind blade products, including parts and labor, with terms and conditions that vary depending on the product sold, for periods that range from two to five years. Warranty expense is recorded based upon estimates of future repairs using a probability-based methodology. Once the warranty period has expired, any remaining unused warranty accrual for the specific products is reversed against the current year warranty expense amount.

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

Warranty accrual at June 30 consisted of the following (in thousands):

	2017
Warranty accrual at beginning of year	\$ 19,912
Accrual during the period	7,861
Cost of warranty services provided during the period	(305)
Reversal of reserves upon warranty expiration	(1,595)
Warranty accrual at end of period	\$ 25,873

Net Income Attributable to Preferred Shareholders

Net income attributable to preferred shareholders related to the accrual of dividends on our convertible and senior redeemable preferred shares, the accretion to redemption amounts on our convertible preferred shares and warrant fair value adjustment. Immediately prior to the closing of our IPO, all preferred shares were converted into shares of our common stock and as a result, the accrual of dividends ceased.

Net Income Per Share Calculation

The basic net income per common share is computed by dividing the net income by the weighted-average number of common shares outstanding during a period. Diluted net income per common share is computed by dividing the net income by the weighted-average number of common shares outstanding plus potentially dilutive securities. The table below reflects the calculation of the weighted-average number of common shares outstanding used in computing basic and diluted earnings per common share (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Basic weighted-average shares outstanding	33,737	4,238	33,737	4,238
Effect of dilutive stock options and warrants	91	6	90	6
Diluted weighted-average shares outstanding	33,828	4,244	33,827	4,244

The Company did not have any potentially dilutive securities outstanding that are not included in the diluted net income per share calculation for the three and six months ended June 30, 2017 and 2016.

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.

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

Recently Issued Accounting Pronouncements

Accounting Pronouncements Adopted in 2017

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, *Compensation – Stock Compensation: Improvement to Employee Share-Based Payment Accounting*, to simplify certain aspects of the accounting for share-based payment transactions to employees. The new standard requires excess tax benefits and tax deficiencies to be recorded in the consolidated income statements as a component of the provision for income taxes when stock awards vest or options are exercised. In addition, it eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the consolidated statements of cash flows. Further, the standard provides an accounting policy election to account for forfeitures as they occur, allows us to withhold more of an employee's vesting shares for tax withholding purposes without triggering liability accounting, and clarifies that all cash payments made to tax authorities on an employee's behalf for withheld shares should be presented as a financing activity on the Company's consolidated statements of cash flows.

The Company adopted ASU 2016-09 in the first quarter of 2017 using the modified retrospective transition method through a cumulative effect adjustment to equity as of January 1, 2017. Upon adoption, the Company elected to eliminate application of a forfeiture assumption to share based compensation expense and account for forfeitures as they occur over the vesting period. The cumulative effect of this change increased additional paid-in capital and decreased retained earnings as of January 1, 2017 by \$1.1 million. The Company did not have any previously unrecognized excess tax effects that had not been recorded as a reduction to the tax liability.

The Company did not have any vesting of restricted stock units or stock option exercises during the periods presented in the accompanying financial statements; therefore, the provisions of the standard relating to the cash flow presentation and income taxes did not impact the statements of cash flows nor the income tax provision for the three or six months ended June 30, 2017. The inclusion of excess tax benefits and deficiencies as a component of the Company's income tax expense in future periods will increase volatility within the provision for income taxes as the amount of excess tax benefits or deficiencies from share-based compensation awards are dependent on the Company's stock price at the date the restricted awards vest, the stock price on the date an option is exercised, and the quantity of options exercised.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, (Topic 606), which provides new recognition and disclosure requirements for revenue from contracts with customers that supersedes the existing revenue recognition guidance. The new recognition requirements focus on when the customer obtains control of the goods or services, rather than the current risks and rewards model of recognition. The core principle of the new standard is that an entity will recognize revenue when it transfers goods or services to its customers in an amount that reflects the consideration an entity expects to be entitled to for those goods or services. The new disclosure requirements will include information intended to communicate the nature, amount, timing and any uncertainty of revenue and cash flows from the applicable contracts, including any significant judgments and changes in judgments and assets recognized from the costs to obtain or fulfill a contract. Entities will generally be required to make more estimates and use more judgment under the new standard.

The new requirements are effective for the Company beginning January 1, 2018, and may be implemented either retrospectively for all periods presented, or as a cumulative-effect adjustment as of the date of adoption.

The Company expects to adopt Topic 606 as of January 1, 2018 with retrospective application to January 1, 2016 through December 31, 2017. Based on the Company's preliminary evaluation of the new standard, revenue recognition in accordance with Topic 606 differs from the current guidance provided by GAAP as outlined in the SEC's Staff Accounting Bulletin 104, which requires the Company to defer recognition of revenue until the risk of loss has passed to the customer and delivery has been made or a fixed delivery schedule has been provided by the customer. Since the Company's products have no alternative use to the Company due to contractual restrictions placed by each customer on the technical specifications and design of the products, the Company's preliminary assessment is that revenue upon adoption of Topic 606 will likely be recognized over time during the course of the production process and before the product is delivered to the customer.

The Company expects that the adoption of Topic 606 will have a material impact on the amount of net sales, cost of goods sold and income from operations reported in the consolidated income statements in future periods. In accordance with Topic 606, revenues will be recognized over the time period of the production process, whereas currently it is recognized upon delivery to the client. Further,

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

since revenue will be recognized over time for manufacturing contracts, future net sales will include amounts related to products that are in production as of the period end. Finally, the gross margin realized in the period may be impacted by the changes related to the timing and amount of revenue recognized for products in the production process.

The changes noted above involving the timing of revenue recognition will materially impact the amount of reported assets and liabilities associated with our manufacturing contracts. Upon adoption of Topic 606, the Company will include amounts recognized in revenue for products in production in contract assets, which differs from the current practice of including the balances in inventory and will include an amount for the margin recognized to date. The Company believes that it will no longer report inventory held for customer orders since revenue will be recognized over time during the course of the production process and before the product is delivered to the customer. The Company expects that contract liabilities will be reported for amounts collected from customers in advance of the production of products. The Company also expects that the amount of deferred revenue will be substantially reduced as revenue for products will be recognized over time.

The Company does not anticipate a change in the timing of cash receipts and payments from customers as customers will continue to be invoiced as products are completed; however, the impact to the amounts reported in the consolidated statements of cash flows operating activities upon application of Topic 606 is expected to be material.

The Company has a project plan in place for the transition to revenue recognition in accordance with Topic 606 including necessary changes to accounting processes and procedures, the chart of accounts, the system of internal control and retrospective application of the standard to periods beginning January 1, 2016 through December 31, 2017. The Company expects to complete the plan in time to report in accordance with Topic 606 for the first quarterly filing on Form 10-Q for the period ended March 31, 2018.

Cash Flow Presentation

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, that clarifies how certain cash receipts and cash payments are presented and classified in the consolidated statement of cash flows. In addition, in November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, that requires restricted cash and cash equivalents to be included with the amount of cash and cash equivalents that are reconciled to on the consolidated statement of cash flows. These ASUs are effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The Company does not believe that the adoption of ASU 2016-15 and 2016-18 on January 1, 2018 will have a material effect on the Company's financial position or results of operations.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 is a comprehensive new recognition model for leases requiring a lessee to recognize the asset and liability that arise from leases. For public companies, the amendment is effective for financial statements issued for annual periods beginning after December 16, 2018. Entities may elect to early adopt the lease standard in 2016. In adopting ASU 2016-02, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. Management is evaluating the provisions of ASU 2016-02 and has not yet selected a transition method nor determined what impact the adoption of ASU 2016-02 will have on the Company's financial position or results of operations.

Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 revises the accounting requirements related to the measurement of credit losses on financial instruments and the timing of when such losses are recorded. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for fiscal years and interim periods within those years, beginning after December 15, 2018. Accordingly, ASU 2016-13 is effective for the Company on January 1, 2020 using a modified retrospective approach, and the Company is currently evaluating the impact that the standard will have on the Company's financial position and results of operations.

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

Note 2. Significant Risks and Uncertainties

The Company's revenues and receivables are from a small number of customers. As such, the Company's production levels are dependent on these customers' orders. See note 11, *Concentration of Customers*.

The Company maintains its 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 2017 and 2016. At June 30, 2017 and December 31, 2016, the Company had \$93.2 million and \$103.4 million, respectively, of cash in deposit accounts in high quality U.S. banks, which was in excess of FDIC limits. The Company has not experienced losses in any such accounts.

The Company also maintains cash in bank deposit accounts outside the U.S. with no deposit insurance. This includes \$30.8 million in China, \$5.7 million in Turkey and \$1.1 million in Mexico as of June 30, 2017. The Company has not experienced losses in these accounts in the past.

Note 3. Related-Party Transactions

Related party transactions include transactions between the Company and certain of its affiliates. The following transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

The Company has entered into several agreements with subsidiaries of General Electric Company and its consolidated affiliates (GE) relating to the operation of its business. As a result of these agreements, GE has been a debtor, creditor, holder of preferred shares and currently is a holder of common shares.

The Company has entered into five separate supply agreements with GE to manufacture wind blades in Newton, Iowa; Taicang Port, China; Juárez, Mexico (2) and Izmir, Turkey. The supply agreements in Taicang Port, China and Izmir, Turkey expire December 31, 2017 and GE has decided not to renew or extend these two contracts. As a result of the supply agreements, GE is the Company's largest customer. As disclosed at note 11, *Concentration of Customers*, for the three months ended June 30, 2017 and 2016, the Company recorded related-party sales with GE of \$102.4 million and \$98.1 million, respectively, and for the six months ended June 30, 2017 and 2016, the Company recorded related-party sales with GE of \$187.3 million and \$194.3 million, respectively. As of June 30, 2017 and December 31, 2016, the Company had accounts receivables related to sales to GE of \$26.7 million and \$16.6 million, respectively.

Since 2007, the Company has issued multiple series of preferred shares, including several preferred share issuances to GE. Immediately prior to the closing of the IPO, all shares of the then-outstanding preferred shares were converted into shares of common stock. As a result of these transactions, GE owned approximately 8.4% of the Company's outstanding common stock as of December 31, 2016. As of June 30, 2017, GE has informed the Company that GE owned less than 5% of the Company's outstanding common stock.

In January 2016, the Company entered into an agreement with GE and received an advance of \$2.0 million, which the Company repaid in full in August 2016.

Certain of the Company's existing stockholders, consisting of entities associated with Element Partners, Angeleno Group and Landmark Partners, each of which is an affiliate of a member of the board of directors, as well as certain executive officers and a director, purchased an aggregate of 1,250,000 shares of common stock in the IPO. In addition, all outstanding obligations and accrued interest under the Company's subordinated convertible promissory notes held by certain existing stockholders, including Element Partners, Angeleno Group and Landmark Partners, were converted into an aggregate of 1,079,749 shares of common stock concurrent with the closing of the IPO at the public offering price of \$11.00 per share.

In connection with the Company's secondary offering, certain entities associated with Element Partners, Angeleno Group, Landmark Partners and NGP Energy Technology Partners, L.P., as well as certain executive officers of the Company sold an aggregate of 5,075,000 shares of common stock at the public offering price of \$16.35 per share.

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

Note 4. Accounts Receivable

Accounts receivable consisted of the following (in thousands):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Trade accounts receivable	\$ 114,401	\$ 66,612
Other accounts receivable	2,801	1,230
Total accounts receivable	<u>\$ 117,202</u>	<u>\$ 67,842</u>

Note 5. Inventories

Inventories consisted of the following (in thousands):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Raw materials	\$ 28,524	\$ 29,278
Work in process	26,774	21,169
Finished goods	4,455	2,648
Total inventories	<u>\$ 59,753</u>	<u>\$ 53,095</u>

Note 6. Property, Plant and Equipment, Net

Property, plant and equipment, net consisted of the following (in thousands):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Machinery and equipment	\$ 86,314	\$ 70,481
Buildings	13,973	13,449
Leasehold improvements	19,599	16,818
Office equipment and software	9,771	6,403
Furniture	18,326	15,883
Vehicles	339	342
Construction in progress	16,416	11,592
Total	164,738	134,968
Accumulated depreciation	(52,306)	(43,802)
Property, plant and equipment, net	<u>\$ 112,432</u>	<u>\$ 91,166</u>

Total depreciation expense for the three months ended June 30, 2017 and 2016 was \$4.6 million and \$3.2 million, respectively, and for the six months ended June 30, 2017 and 2016 was \$8.4 million and \$6.2 million, respectively.

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

Note 7. 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 (in thousands):

	June 30, 2017	December 31, 2016
Senior term loan—U.S.	\$ 73,125	\$ 75,000
Senior revolving loan—U.S.	2,820	2,820
Accounts receivable financing—EMEA	20,302	15,120
Unsecured financing—EMEA	—	4,638
Equipment financing—EMEA	17,121	15,813
Equipment capital lease—Mexico	13,850	8,037
Equipment capital lease—U.S.	1,156	2,016
Equipment capital lease—EMEA	1,918	1,898
Equipment loan—Mexico	75	103
Total long-term debt	130,367	125,445
Less: Debt issuance costs	(2,004)	(2,290)
Total long-term debt, net of debt issuance costs	128,363	123,155
Less: Current maturities of long-term debt	(38,511)	(33,403)
Long-term debt, net of debt issuance costs and current maturities	<u>\$ 89,852</u>	<u>\$ 89,752</u>

Note 8. Share-Based Compensation Plans

The Company has granted stock option awards to certain employees and non-employee directors under the Amended and Restated 2015 Stock Option and Incentive Plan (the 2015 Plan). Each award granted prior to the consummation of the IPO included a performance condition that required the completion of an initial public offering by the Company and a required vesting period of one to four years commencing upon achievement of the performance condition. As the IPO was consummated in July 2016, the Company began recording compensation expense in July 2016 for the requisite service period from the grant date through the IPO date with the balance of the share-based compensation to be expensed over the remaining vesting period. Total share-based compensation expense recognized during the three months ended June 30, 2017 was \$2.0 million, of which \$0.3 million is included in cost of goods sold and the remaining \$1.7 million is included in general and administrative expenses. The amount related to restricted stock units was \$0.6 million while \$1.4 million related to stock options. Total share-based compensation expense recognized during the six months ended June 30, 2017 was \$3.8 million, of which \$0.6 million is included in cost of goods sold and the remaining \$3.2 million is included in general and administrative expenses. The amount related to restricted stock units (RSU) was \$1.2 million while \$2.6 million related to stock options. No share-based compensation costs were capitalized during the three and six months ended June 30, 2017 and 2016.

As of June 30, 2017, the unamortized cost of the outstanding restricted stock units was \$2.3 million, which the Company expects to recognize in the consolidated financial statements over a weighted-average period of approximately 1.5 years. The total unrecognized cost related to non-vested stock option awards was \$5.2 million as of June 30, 2017. The Company expects to recognize such costs in the consolidated financial statements over a weighted-average period of approximately 1.9 years.

The following table summarizes the activity of the stock options and RSUs under the Company's incentive plans:

	Shares Available for Grant	Stock Options			RSUs	
		Shares	Weighted-Average Exercise Price	Options Exercisable	Units	Weighted-Average Grant Date Fair Value
Balance as of December 31, 2016	3,587,692	3,331,418	\$ 12.72	25,828	636,120	\$ 10.90
Increase in shares authorized	1,349,475	—	—	—	—	—
Granted	(31,480)	5,300	16.04	—	26,180	16.04
Forfeited/cancelled	64,800	(54,000)	13.14	—	(10,800)	10.87
Balance as of June 30, 2017	<u>4,970,487</u>	<u>3,282,718</u>	12.72	25,828	<u>651,500</u>	11.10

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

The following table summarizes the outstanding and exercisable stock option awards as of June 30, 2017 :

<u>Range of Exercise Prices:</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Shares</u>	<u>Weighted-Average Remaining Contractual Life (in years)</u>	<u>Weighted-Average Exercise Price</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
\$8.49	25,828	2.5	\$ 8.49	25,828	\$ 8.49
\$10.87	2,246,400	7.9	10.87	—	—
\$11.00 - \$16.04	84,500	9.1	12.73	—	—
\$ 16.53	583,200	8.5	16.53	—	—
\$17.68 - \$18.70	342,790	8.9	18.68	—	—
\$8.49 to \$18.70	<u>3,282,718</u>	8.1	12.72	<u>25,828</u>	8.49

Note 9. Income Taxes

Income tax expense was \$6.0 million and \$2.0 million in the three months ended June 30, 2017 and 2016, respectively, and \$8.1 million and \$4.3 million in the six months ended June 30, 2017 and 2016, respectively. The higher effective tax rate was primarily due to the Company not recording tax benefits from operating losses in both the U.S. and at the Company's second manufacturing facility in Turkey. The Company also recognized an additional \$0.9 million of tax expense during the six months ended June 30, 2017 as the Company did not record tax benefits from U.S. foreign tax credits due to valuation allowances. The United States and Turkey operations have not had a significant change to the full valuation allowances recorded against their deferred tax assets as of December 31, 2016. No changes in tax law since December 31, 2016 have had a material impact on the Company's income tax provision.

Note 10. Commitments and Contingencies

Legal Proceedings

A complaint was filed against the Company in the Superior Court of the State of Arizona (Maricopa County) by a former employee of the Company, alleging that the Company had agreed to make certain cash payments to such employee upon any future sale of the Company. The Company denies the substantive allegations of the complaint and intends to vigorously defend this lawsuit; however, the Company is currently unable to determine the ultimate outcome of this case. In addition, the Company entered into a transition agreement with a former officer, pursuant to which he transitioned out of his role at the end of 2015 and was to serve in a consulting capacity in 2016 and 2017. In January 2016, following the discovery that he had materially violated the terms of his transition agreement, the Company terminated his consultancy for cause. In April 2016, the officer filed an arbitration claim alleging that the Company improperly terminated his transition agreement. The Company believes that the termination of his transition agreement was valid and the Company intends to vigorously defend this matter. The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Note 11. Concentration of Customers

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

<u>Customer</u>	<u>Three Months Ended June 30,</u>				<u>Six Months Ended June 30,</u>			
	<u>2017</u>		<u>2016</u>		<u>2017</u>		<u>2016</u>	
	<u>Revenues</u>	<u>% of Total</u>	<u>Revenues</u>	<u>% of Total</u>	<u>Revenues</u>	<u>% of Total</u>	<u>Revenues</u>	<u>% of Total</u>
GE	\$ 102,408	41.3%	\$ 98,143	50.5%	\$ 187,318	42.6%	\$ 194,294	52.5%
Vestas	82,109	33.1	40,475	20.8	126,431	28.8	70,416	19.0
Nordex Group	38,973	15.7	35,343	18.2	72,532	16.5	65,007	17.5
Gamesa	21,323	8.6	18,572	9.6	47,585	10.8	36,709	9.9
Other	3,373	1.3	1,722	0.9	5,922	1.3	3,939	1.1
Total	<u>\$ 248,186</u>	<u>100.0%</u>	<u>\$ 194,255</u>	<u>100.0%</u>	<u>\$ 439,788</u>	<u>100.0%</u>	<u>\$ 370,365</u>	<u>100.0%</u>

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

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

<u>Customer</u>	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	<u>% of Total</u>	<u>% of Total</u>
GE	23.4%	24.9%
Vestas	40.8%	26.2%
Nordex Group	29.4%	26.8%
Gamesa	4.3%	16.2%

Note 12. Segment Reporting

The Company's operating segments are defined geographically as the United States, Asia, Mexico and EMEA. Financial results are aggregated into four reportable segments based on quantitative thresholds. All of the Company's segments operate in their local currency except for the China and Mexico segments, which both include a U.S. parent company.

The following tables set forth certain information (in thousands) regarding each of the Company's segments:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues by segment:				
U.S.	\$ 45,175	\$ 45,069	\$ 91,715	\$ 96,830
Asia	109,089	81,453	175,821	145,805
Mexico	42,138	27,635	89,069	53,175
EMEA	51,784	40,098	83,183	74,555
Total revenues	<u>\$ 248,186</u>	<u>\$ 194,255</u>	<u>\$ 439,788</u>	<u>\$ 370,365</u>
Revenues by geographic location (1):				
U.S.	\$ 45,175	\$ 45,069	\$ 91,715	\$ 96,830
China	109,089	81,453	175,821	145,805
Mexico	42,138	27,635	89,069	53,175
Turkey	51,784	40,098	83,183	74,555
Total revenues	<u>\$ 248,186</u>	<u>\$ 194,255</u>	<u>\$ 439,788</u>	<u>\$ 370,365</u>
Income (loss) from operations:				
U.S. (2)	\$ (8,016)	\$ (4,462)	\$ (18,127)	\$ (5,123)
Asia	25,456	15,222	40,160	30,764
Mexico	21	1,656	1,968	2,623
EMEA	6,338	5,062	9,512	(2,597)
Total income from operations	<u>\$ 23,799</u>	<u>\$ 17,478</u>	<u>\$ 33,513</u>	<u>\$ 25,667</u>

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Property, plant and equipment, net:		
U.S.	\$ 20,120	\$ 16,740
Asia (China)	28,080	26,341
Mexico	39,591	24,842
EMEA (Turkey)	24,641	23,243
Total property, plant and equipment, net	<u>\$ 112,432</u>	<u>\$ 91,166</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 the U.S. segment includes corporate general and administrative costs of \$10.8 million and \$5.3 million for the three months ended June 30, 2017 and 2016, respectively, and \$19.1 million and \$10.1 million for the six months ended June 30, 2017 and 2016, respectively.

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

Note 13. Subsequent Events

On August 4, 2017, the Company signed a multiyear supply agreement with a customer for two manufacturing lines in Taicang, China. The Company expects to commence operations for this customer before the end of the first quarter of 2018.

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 and related financing, 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 August 4, 2017, our long-term supply agreements provide for minimum aggregate volume commitments from our customers of approximately \$2.8 billion and encourage our customers to purchase additional volume up to, in the aggregate, a total contract value of over approximately \$4.4 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 99% of our total net sales in each of the three and six months ended June 30, 2017 and 2016.

We divide our business operations into four geographic operating segments—the United States, Asia, Mexico and Europe, the Middle East and Africa, or EMEA, 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 for the manufacture of wind blades in our Warren, Rhode Island facility, (3) the manufacturing of composite solutions for the transportation industry, which we also conduct in our Rhode Island and Massachusetts facilities and (4) our corporate headquarters, the costs of which are included in general and administrative expenses.
- Our Asia segment includes (1) the manufacturing of wind blades in facilities in Taicang Port, China and in two facilities in Dafeng, China, (2) the manufacturing of precision molding and assembly systems in our Taicang City, China facility, (3) the manufacture of components in our second Taicang Port, China facility and (4) wind blade inspection and repair services.
- Our Mexico segment manufactures wind blades from three facilities in Juárez, Mexico, one of which commenced operations in 2014, the second during the third quarter of 2016 and the third in January 2017. In April 2017, our Mexico segment entered into a new lease agreement with a third party for a new manufacturing facility in Matamoros, Mexico, and expects to commence operations at this facility in the first half of 2018.
- Our EMEA segment manufactures wind blades from our two facilities in Izmir, Turkey. We entered into a joint venture in 2012 to produce wind blades at our first Turkey plant and in 2013 became the sole owner of the Turkey operation with the acquisition of the remaining 25% interest. Our EMEA segment commenced operations at our second facility during the third quarter of 2016.

KEY TRENDS AND RECENT DEVELOPMENTS AFFECTING OUR BUSINESS

The trend of wind turbine OEMs outsourcing production of wind blades remains strong as evidenced by our recent signing of a new supply agreement with a customer for two production lines in our Taicang, China manufacturing facility in August 2017.

Our wind turbine OEMs are experiencing significant pricing pressure in many geographic markets due to several factors, including an increasing prevalence of “winner take all” auction-based pricing models for new wind farm projects, increasing competition from solar energy projects and market demand shifts driven by the current Production Tax Credit cycle in the United States. As a result of these market trends, our wind turbine OEM customers are requiring an increasing number of wind blade model transitions in late 2017 and 2018.

We expect that the increased number of wind blade model transitions in late 2017 and 2018 may reduce our year-over-year revenue growth rate in 2018.

COMPONENTS OF RESULTS OF OPERATIONS

Net Sales

Net sales reflect sales of our products, including wind blades, precision molding and assembly systems and transportation products, as well as fees and other amounts paid by our customers to compensate us for our costs and capital expenditures associated with wind blade model transitions. Several factors affect net sales in any period, including customer demand, wind blade model transitions, general economic conditions and weather conditions. We currently derive an immaterial amount of net sales from our transportation business. Under GAAP, we do not recognize revenue on our wind blade sales until the wind blades have been delivered to our customers. Under our long-term supply agreements with our customers, we invoice our customers for wind blades once the blades pass certain acceptance procedures and title passes to our customers. Our customers generally pay us for the wind blades between 15 to 65 days after receipt of the invoice based on negotiated payment terms. However, in many cases, our customers request that we store their wind blades until they are ready to assemble wind turbines at a particular wind farm project. We have no control over when our customers decide to ship wind blades from our storage sites, and in some cases, our customers have stored large numbers of their wind blades at our sites for six months or more. Even if the customer has paid us for the wind blades and title has passed to the customer, we do not recognize revenue for these wind blades until the wind blades have been delivered to the customer. Instead, these transactions are recorded as deferred revenue in our condensed consolidated financial statements.

Cost of Goods Sold

Cost of goods sold includes the costs associated with products invoiced during the period as well as unallocated manufacturing overhead costs associated with startup and transition costs. Cost of sales includes all costs incurred at our production facilities to make products saleable, such as raw materials, direct labor and indirect labor and facilities costs, including purchasing and receiving costs, plant management, inspection costs, product engineering and internal transfer costs. In addition, all depreciation associated with assets used to produce composite products and make them saleable is included in cost of sales. Direct labor costs consist of salaries, benefits and other personnel related costs for employees engaged in the manufacture of our products.

Startup costs represent the unallocated overhead related to both new manufacturing facilities as well as new lines in existing manufacturing facilities. Transition costs represent the unallocated overhead related to the transition of wind blade models at the request of our customers. The startup and transition costs are primarily fixed overhead costs incurred during the period production facilities are under-utilized while transitioning wind blade models and ramping up manufacturing, which are not allocated to products and are expensed as incurred. 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, manufacturing overhead as a percentage of net sales is 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 are primarily 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, 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.

For the three months ended June 30, 2017 and 2016 and for the six months ended June 30, 2017 and 2016, our research and development expenses (included in general and administrative expenses) totaled \$ 0.5 million, \$ 0.4 million, \$ 0.8 million and \$ 0.6 million, respectively.

Other Income (Expense)

Other income (expense) consists primarily of interest expense on our credit facilities and the amortization of deferred financing costs and beneficial conversion features related to our debt borrowings. Other income (expense) also includes realized gains and losses on foreign currency remeasurement, interest income and miscellaneous income and expense.

Income Tax Provision

Income tax provision consists of federal, state, provincial, local and foreign taxes based on income in jurisdictions in which we operate, including in the United States, China, Mexico and Turkey. The composite income tax rate, tax provisions, deferred tax assets and deferred tax liabilities vary according to the jurisdiction in which the income (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.

Net Income Attributable to Preferred Shareholders

Net income attributable to preferred shareholders related to the accrual of dividends on our convertible and senior redeemable preferred shares, the accretion to redemption amounts on our convertible preferred shares and warrant fair value adjustment. Immediately prior to the closing of our IPO, all preferred shares were converted into shares of our common stock and as a result, the accrual of dividends ceased.

KEY FINANCIAL MEASURES

In addition to measures of financial performance presented in our condensed consolidated financial statements in accordance with GAAP, we use certain other financial measures and operating metrics to analyze the performance of our company. The “non-GAAP” financial measures consist of total billings, EBITDA, adjusted EBITDA and net 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 (MWs) of energy capacity for wind blades invoiced, manufacturing lines dedicated to customers under long-term supply agreements, total manufacturing lines installed, manufacturing lines in startup and manufacturing lines in transition, which help us evaluate our operational performance. We believe that these measures are useful to investors in evaluating our performance.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net sales	\$ 248,186	\$ 194,255	\$ 439,788	\$ 370,365
Total billings (1)	\$ 231,069	\$ 196,146	\$ 442,429	\$ 370,684
Net income	\$ 13,858	\$ 11,555	\$ 17,403	\$ 13,301
EBITDA (1)	\$ 27,478	\$ 20,776	\$ 39,960	\$ 31,727
Adjusted EBITDA (1)	\$ 30,755	\$ 20,794	\$ 46,325	\$ 32,184
Capital expenditures	\$ 9,805	\$ 3,356	\$ 26,727	\$ 14,244

	June 30, 2017	December 31, 2016
	(in thousands)	
Total debt, net of debt issuance costs	\$ 128,363	\$ 123,155
Net debt (1)	\$ (467)	\$ 6,379

- (1) See below for more information and a reconciliation of total billings, EBITDA, adjusted EBITDA and net debt to net sales, net income, net income and total debt, net of debt issuance costs and discount, respectively, the most directly comparable financial measures calculated and presented in accordance with GAAP.

Net sales and total billings

We define total billings, a non-GAAP financial measure, as the total amounts we have invoiced our customers for products and services for which we are entitled to payment under the terms of our long-term supply agreements or other contractual agreements. We monitor total billings, and believe it is useful to present to investors as a supplement to our GAAP measures, because we believe it more directly correlates to sales activity and operations based on the timing of actual transactions with our customers, which facilitates comparison of our performance between periods and provides a more timely indication of trends in sales. Under GAAP, we do not recognize revenue on our wind blade sales until the wind blades have been delivered to our customers. Under our long-term supply agreements with our customers, we invoice our customers for wind blades once the blades pass certain acceptance procedures and title passes to our customers. Our customers generally pay us for the wind blades between 15 to 65 days after receipt of the invoice based on negotiated payment terms. However, in many cases, our customers request that we store their wind blades until they are ready to assemble wind turbines at a particular wind farm project. We have no control over when our customers decide to ship wind blades from our storage sites, and in some cases, our customers have stored large numbers of their wind blades on our sites for six months or more. Even if the customer has paid us for the wind blades and title has passed to the customer, we do not recognize revenue for these wind blades until the wind blades have been delivered to the customer. Instead, these transactions are recorded as deferred revenue in our condensed consolidated financial statements. However, we are contractually entitled to payment for those wind blades and, accordingly, invoice them when the blades are placed in storage.

Our use of total billings has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under 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 plus or minus any realized gains or losses from foreign currency remeasurement. 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 Facility contains minimum EBITDA (as defined in the Credit Facility) 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 uses 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 in this presentation. 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 and other GAAP measures.

Net debt

We define net debt as the total principal amount of debt outstanding less unrestricted cash and cash equivalents. 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 discount. We believe that the presentation of net debt provides useful information to investors because our management reviews net debt as part of our oversight of overall liquidity, financial flexibility and leverage. Net 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net sales	\$ 248,186	\$ 194,255	\$ 439,788	\$ 370,365
Change in deferred revenue:				
Blade-related deferred revenue at beginning of period (1)	(89,319)	(65,027)	(69,568)	(65,520)
Blade-related deferred revenue at end of period (1)	74,255	65,656	74,255	65,656
Foreign exchange impact (2)	(2,053)	1,262	(2,046)	183
Change in deferred revenue	(17,117)	1,891	2,641	319
Total billings	\$ 231,069	\$ 196,146	\$ 442,429	\$ 370,684
Net income	\$ 13,858	\$ 11,555	\$ 17,403	\$ 13,301
Adjustments:				
Depreciation and amortization	4,654	3,162	8,483	6,173
Interest expense (net of interest income)	2,924	4,106	5,931	7,997
Income tax provision	6,042	1,953	8,143	4,256
EBITDA	27,478	20,776	39,960	31,727
Share-based compensation expense	2,044	—	3,751	—
Realized loss on foreign currency remeasurement	1,233	18	2,614	457
Adjusted EBITDA	\$ 30,755	\$ 20,794	\$ 46,325	\$ 32,184

(1) Total billings is reconciled using the blade-related deferred revenue amounts at the beginning and the end of the period as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Blade-related deferred revenue at beginning of period	\$ 89,319	\$ 65,027	\$ 69,568	\$ 65,520
Non-blade related deferred revenue at beginning of period	—	—	—	—
Total current and noncurrent deferred revenue at beginning of period	\$ 89,319	\$ 65,027	\$ 69,568	\$ 65,520
Blade-related deferred revenue at end of period	\$ 74,255	\$ 65,656	\$ 74,255	\$ 65,656
Non-blade related deferred revenue at end of period	—	—	—	—
Total current and noncurrent deferred revenue at end of period	\$ 74,255	\$ 65,656	\$ 74,255	\$ 65,656

(2) Represents the effect of the difference between the exchange rate used by our various foreign subsidiaries on the invoice date versus the exchange rate used at the period-end balance sheet date.

Net debt is reconciled as follows:

	June 30, 2017	December 31, 2016
	(in thousands)	
Total debt, net of debt issuance costs	\$ 128,363	\$ 123,155
Add debt issuance costs	2,004	2,290
Less cash and cash equivalents	(130,834)	(119,066)
Net debt	\$ (467)	\$ 6,379

KEY OPERATING METRICS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Sets	692	551	1,328	1,037
Estimated megawatts	1,620	1,252	3,080	2,365
Dedicated manufacturing lines	46	38	46	38
Total manufacturing lines installed	39	30	39	30
Manufacturing lines in startup	9	—	9	—
Manufacturing lines in transition	—	3	—	3

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 and total billings.

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 our wind blades 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.

Dedicated manufacturing lines are the number of manufacturing lines that we have dedicated to our customers pursuant to our long-term supply agreements. 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 our wind blades from customers under our long-term supply agreements in any given period. Dedicated manufacturing lines primarily impacts our net sales and total billings. In April 2017, we entered into a multiyear supply agreement with Vestas to supply wind blades from two manufacturing lines at a new manufacturing facility that will be constructed in Matamoros, Mexico. We expect to commence operations at this facility in the first half of 2018.

Total manufacturing lines installed represents the number of manufacturing lines installed and either in operation, startup or transition.

Manufacturing lines in startup is the number of dedicated manufacturing lines that were in a startup phase during the pre-production and production ramp up period, pursuant to the opening of a new manufacturing facility, the expansion of an existing manufacturing facility or the addition of new manufacturing lines in an existing manufacturing facility. We monitor and present this metric because we believe it helps investors to better understand the impact of the startup phase of our new manufacturing facilities on our gross profit and net income.

Manufacturing lines in transition is the number of manufacturing lines that were being transitioned to a new wind blade model during the period. We monitor and present this metric because we believe it helps investors to better understand the impact of these transitions on our gross profit and net income.

Results of Operations

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

The following table summarizes certain information relating to our operating results and related percentage of net sales for the three months ended June 30, 2017 and 2016 that has been derived from our unaudited condensed consolidated financial statements.

	Three Months Ended June 30,			
	2017		2016	
	(dollars in thousands)			
Net sales	\$ 248,186	100.0%	\$ 194,255	100.0%
Cost of sales	203,095	81.8%	168,382	86.7%
Startup and transition costs	10,540	4.3%	3,055	1.6%
Total cost of goods sold	213,635	86.1%	171,437	88.3%
Gross profit	34,551	13.9%	22,818	11.7%
General and administrative expenses	10,752	4.3%	5,340	2.7%
Income from operations	23,799	9.6%	17,478	9.0%
Other expense	(3,899)	(1.6)%	(3,970)	(2.0)%
Income before income taxes	19,900	8.0%	13,508	7.0%
Income tax provision	(6,042)	(2.4)%	(1,953)	(1.0)%
Net income	13,858	5.6%	11,555	6.0%
Net income attributable to preferred shareholders	—	—	2,438	1.3%
Net income attributable to common shareholders	\$ 13,858	5.6%	\$ 9,117	4.7%

Net sales for the three months ended June 30, 2017 increased by \$53.9 million or 27.8% to \$248.2 million compared to \$194.3 million in the same period in 2016. Net sales of wind blades increased by 31.1% to \$239.8 million for the three months ended June 30, 2017 as compared to \$182.9 million in the same period in 2016. The increase was primarily driven by a 36% increase in the number of wind blades delivered during the three months ended June 30, 2017 compared to the same period in 2016 primarily from our China and Mexico plants, partially offset by a decline in the average sales prices of the same wind blade models delivered in both periods as a result of geographic mix and savings in raw material costs, a portion of which we share with our customers, and foreign currency fluctuations in China and Turkey. Net sales from the manufacturing of precision molding and assembly systems during the three months ended June 30, 2017 decreased to \$4.8 million from \$10.0 million in the same period in 2016. This decrease was primarily the result of our customers requiring less precision molding and assembly systems from our Rhode Island facility during the three months ended June 30, 2017. Total billings for the three months ended June 30, 2017 increased by \$34.9 million or 17.8% to \$231.1 million compared to \$196.1 million in the same period in 2016. The impact of the strengthening of the U.S. dollar against the Euro at our Turkey operations and the Chinese Renminbi at our China operations on consolidated net sales and total billings for the three months ended June 30, 2017 were reductions of 2.0% and 1.9%, respectively, but were not significant for the three months ended June 30, 2016.

Total cost of goods sold for the three months ended June 30, 2017 was \$213.6 million and included aggregate costs of \$10.5 million related to startup costs in our new plants in Mexico and Turkey and the startup of a new wind blade model for one of our customers in Dafeng, China. This compares to total cost of goods sold for the three months ended June 30, 2016 of \$171.4 million, including aggregate costs of \$3.1 million related to startup costs in our new plants in Mexico and Turkey as well as the transition of wind blade models in our original plant in Mexico. Cost of goods sold as a percentage of net sales of wind blades decreased by three percentage points during the three months ended June 30, 2017 as compared to the same period in 2016, driven by improved operating efficiencies, the impact of savings in raw material costs and foreign currency fluctuations, partially offset by the increase in startup and transition costs. Similar to the impact to net sales above, the impact of the strengthening of the U.S. dollar against the Euro, Turkish Lira, Chinese Renminbi and Mexican Peso reduced consolidated cost of goods sold by 3.9% for three months ended June 30, 2017 but was not significant for the three months ended June 30, 2016.

General and administrative expenses for the three months ended June 30, 2017 totaled \$10.8 million as compared to \$5.3 million for the same period in 2016. As a percentage of net sales, general and administrative expenses were 4.3% for the three months ended June 30, 2017, up from 2.7% in the same period in 2016. The increase was primarily driven by share-based compensation costs of \$1.7 million recorded in the 2017 period (none was recorded in the 2016 period prior to our IPO in July 2016), the costs of our secondary offering as well as additional costs incurred to enhance our corporate support functions to support our growth and public company governance.

Other expense of \$3.9 million for the three months ended June 30, 2017 was comparable to \$4.0 million for the same period in 2016. The amount for the three months ended June 30, 2017 was primarily comprised of interest expense of \$2.9 million and the realized

loss on foreign currency remeasurement of \$1.2 million. This compares to interest expense of \$4.1 million and \$0.02 million related to the realized loss on foreign currency remeasurement in the three months ended June 30, 2016.

Income tax provision increased to \$6.0 million for the three months ended June 30, 2017 from \$2.0 million for the same period in 2016. The higher effective tax rate was primarily due to us not recording tax benefits from operating losses in both the U.S. and at our second manufacturing facility in Turkey. We also recognized additional tax expense during the three months ended June 30, 2017 related to unrecorded tax benefits from U.S. foreign tax credits due to valuation allowances.

Net income for the three months ended June 30, 2017 was \$13.9 million, as compared to \$11.6 million in the same period in 2016. The increase was primarily due to the reasons set forth above.

Net income attributable to preferred shareholders was \$2.4 million for the three months ended June 30, 2016 and there was none in the 2017 period as following our IPO in July 2016, all of our preferred shares were converted to common shares.

Net income attributable to common shareholders was \$13.9 million for the three months ended June 30, 2017, compared to \$9.1 million in the same period in 2016. This was primarily due to the improved operating results discussed above. Diluted earnings per share was \$0.41 for the three months ended June 30, 2017, compared to \$2.15 for the three months ended June 30, 2016.

Segment Discussion

The following table summarizes our net sales and income (loss) from operations by our four geographic operating segments:

	Three Months Ended June 30,	
	2017	2016
	(in thousands)	
Net Sales		
U.S.	\$ 45,175	\$ 45,069
Asia	109,089	81,453
Mexico	42,138	27,635
EMEA	51,784	40,098
Total net sales	<u>\$ 248,186</u>	<u>\$ 194,255</u>

	Three Months Ended June 30,	
	2017	2016
	(in thousands)	
Income (Loss) from Operations		
U.S. (1)	\$ (8,016)	\$ (4,462)
Asia	25,456	15,222
Mexico	21	1,656
EMEA	6,338	5,062
Total income from operations	<u>\$ 23,799</u>	<u>\$ 17,478</u>

(1) Includes the costs of our corporate headquarters totaling \$10.8 million and \$5.3 million for the three months ended June 30, 2017 and 2016, respectively.

U.S. Segment

Net sales in the three months ended June 30, 2017 increased slightly to \$45.2 million compared to \$45.1 million in the same period in 2016. Net sales of wind blades were \$40.6 million during the three months ended June 30, 2017 as compared to \$38.5 million in the same period of 2016 on an 11% increase in the number of wind blades delivered, partially offset by a decline in the average sales prices of the same wind blade models delivered in both periods as a result of savings in raw material costs, a portion of which we share with our customers. Net sales from the manufacturing of precision molding and assembly systems during the three months ended June 30, 2017 were \$0.9 million compared to \$5.3 million during the same period in 2016. This decrease was primarily the result of model-specific tooling equipment manufactured in our Rhode Island facility in the 2016 period as required by our customers due to the transition to larger wind blade models for use in our Mexico plant as well as for use at the plants of another U.S. wind blade manufacturer.

The loss from operations for the three months ended June 30, 2017 was \$8.0 million as compared to a loss of \$4.5 million in the same period in 2016. These amounts include corporate general and administrative costs of \$10.8 million and \$5.3 million for the three months ended June 30, 2017 and 2016, respectively, with 2017 including \$1.7 million of share-based compensation costs as described

above. Notwithstanding these costs, the operating results were favorably impacted by higher gross profit on wind blades delivered during the three months ended June 30, 2017 as compared to the 2016 period, partially offset by the lower precision molding volume discussed above during the three months ended June 30, 2017 as compared to the 2016 period.

Asia Segment

Net sales in the three months ended June 30, 2017 increased by \$27.6 million or 33.9% to \$109.1 million compared to \$81.5 million in the same period in 2016. Net sales of wind blades were \$105.2 million in the three months ended June 30, 2017 as compared to \$76.7 million in the same period of 2016. The increase was the result of a 46% increase in the number of wind blades delivered during the three months ended June 30, 2017 compared to the same period in 2016. These increases were partially offset by a change in the mix of wind blade models sold, lower average sales prices of wind blades delivered in both periods due to savings in raw material costs, a portion of which we share with our customers and the unfavorable impact of the fluctuation of the U.S. dollar relative to the Chinese Renminbi of 2.2%. Net sales from the manufacturing of precision molding and assembly systems totaled \$3.9 million during the three months ended June 30, 2017 compared to \$4.7 million during the three months ended June 30, 2016.

Income from operations in the Asia segment for the three months ended June 30, 2017 was \$25.5 million as compared to \$15.2 million in the same period in 2016. In addition to the factors noted above, the increase reflects higher overhead costs in the 2017 period as compared to 2016 partially offset by the favorable impact on cost of goods sold of the fluctuation of the U.S. dollar relative to the Chinese Renminbi of 4.8%.

Mexico Segment

Net sales in the three months ended June 30, 2017 increased by \$14.5 million or 52.5% to \$42.1 million compared to \$27.6 million in the same period in 2016, reflecting a 48% increase in wind blade volume at our first Mexico plant and the beginning of wind blade production in our second plant, partially offset by lower average sales prices of wind blades delivered in both periods. Net sales of wind blades represents the entirety of net sales in the Mexico segment in the 2017 and 2016 periods.

Income from operations in the Mexico segment for the three months ended June 30, 2017 was \$0.02 million as compared to \$1.7 million in the same period in 2016. The decrease in income from operations was due to the startup losses incurred at our two new Mexico facilities, partially offset by the increase in wind blade volume in the 2017 period as compared to 2016 as well as from savings in raw material costs and the favorable impact of the fluctuation of the U.S. dollar relative to the Mexican Peso of on cost of goods sold of 0.7%.

EMEA Segment

Net sales during the three months ended June 30, 2017 increased by \$11.7 million or 29.1% to \$51.8 million compared to \$40.1 million in the same period in 2016. The increase was driven by the beginning of wind blade production in our second Turkey plant, partially offset by a 23% decrease in wind blade volume at our first Turkey plant as a result of GE only requiring the minimum volume required under its contract after its decision to not renew or extend its supply agreement with us beyond 2017. We completed 100% of this volume by the end of the quarter to enable us to accelerate the transition of those manufacturing lines to two new manufacturing lines for Nordex Group. Other items having an unfavorable impact on net sales include the mix of wind blades sold during the period as well as overall lower average sales prices of wind blades delivered in both periods due to savings in raw material costs, a portion of which we share with our customers, and the fluctuation of the U.S. dollar relative to the Euro of 2.4%. Net sales of wind blades represents the entirety of net sales in the EMEA segment in 2017 and 2016.

Income from operations in the EMEA segment for the three months ended June 30, 2017 was \$6.3 million as compared to \$5.1 million in the same period in 2016. The increase was primarily driven by the wind blade production in our second Turkey plant, improved operating efficiency at our first Turkey plant, and the favorable impact on cost of goods sold of the fluctuation of the U.S. dollar relative to the Turkish Lira and Euro of 10.0%.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

The following table summarizes certain information relating to our operating results and related percentage of net sales for the six months ended June 30, 2017 and 2016 that has been derived from our unaudited condensed consolidated financial statements.

	Six Months Ended June 30,			
	2017		2016	
	(dollars in thousands)			
Net sales	\$ 439,788	100.0%	\$ 370,365	100.0%
Cost of sales	370,518	84.2%	328,248	88.7%
Startup and transition costs	16,699	3.8%	6,361	1.7%
Total cost of goods sold	387,217	88.0%	334,609	90.4%
Gross profit	52,571	12.0%	35,756	9.6%
General and administrative expenses	19,058	4.3%	10,089	2.7%
Income from operations	33,513	7.7%	25,667	6.9%
Other expense	(7,967)	-1.8%	(8,110)	-2.2%
Income before income taxes	25,546	5.9%	17,557	4.7%
Income tax provision	(8,143)	-1.9%	(4,256)	-1.1%
Net income	17,403	4.0%	13,301	3.6%
Net income attributable to preferred shareholders	—	0.0%	4,875	1.3%
Net income attributable to common shareholders	\$ 17,403	4.0%	\$ 8,426	2.3%

Net sales for the six months ended June 30, 2017 increased by \$69.4 million or 18.7% to \$439.8 million compared to \$370.4 million in the same period in 2016. Net sales of wind blades increased by 22.0% to \$424.1 million for the six months ended June 30, 2017 as compared to \$347.6 million in the same period in 2016. The increase was primarily driven by a 26% increase in the number of wind blades delivered during the six months ended June 30, 2017 compared to the same period in 2016 from each of our segments, partially offset by a decline in the average sales prices of the same wind blade models delivered in both periods as a result of savings in raw material costs, a portion of which we share with our customers, and foreign currency fluctuations in Turkey and China. Net sales from the manufacturing of precision molding and assembly systems during the six months ended June 30, 2017 decreased to \$9.4 million from \$19.9 million in the same period in 2016. This decrease was primarily the result of our customers requiring less precision molding and assembly systems from our Rhode Island facility during the six months ended June 30, 2017. Total billings for the six months ended June 30, 2017 increased by \$71.7 million or 19.4% to \$442.4 million compared to \$370.7 million in the same period in 2016. The impact of the strengthening of the U.S. dollar against the Euro at our Turkey operations and the Chinese Renminbi at our China operations on consolidated net sales and total billings for the six months ended June 30, 2017 were reductions of 1.5% and 1.6%, respectively, but was not significant for the six months ended June 30, 2016.

Total cost of goods sold for the six months ended June 30, 2017 was \$387.2 million and included aggregate costs of \$16.7 million related to startup costs in our new plants in Mexico and Turkey and the startup of a new wind blade model for one of our customers in Dafeng, China. This compares to total cost of goods sold for the six months ended June 30, 2016 of \$334.6 million, including aggregate costs of \$6.4 million related to startup costs in our new plants in Mexico and Turkey as well as the transition of wind blade models in our original plant in Mexico. Cost of goods sold as a percentage of net sales of wind blades decreased by three percentage points during the six months ended June 30, 2017 as compared to the same period in 2016, driven by improved operating efficiencies and the impact of savings in raw material costs. Similar to the impact to net sales above, the impact of the strengthening of the U.S. dollar against the Euro, Turkish Lira, Chinese Renminbi and Mexican Peso reduced consolidated cost of goods sold by 4.2% for six months ended June 30, 2017, compared to a reduction of 1.4% in the same period in 2016.

General and administrative expenses for the six months ended June 30, 2017 totaled \$19.1 million as compared to \$10.1 million for the same period in 2016. As a percentage of net sales, general and administrative expenses were 4.3% for the six months ended June 30, 2017, up from 2.7% in the same period in 2016. The increase was primarily driven by share-based compensation costs of \$3.2 million recorded in the 2017 period (none was recorded in the 2016 period prior to our IPO in July 2016) as well as additional costs incurred to enhance our corporate support functions to support our growth and public company governance.

Other expense of \$8.0 million for the six months ended June 30, 2017 was comparable to \$8.1 million for the same period in 2016. The amount for the six months ended June 30, 2017 was primarily comprised of interest expense of \$6.0 million and the realized loss on foreign currency remeasurement of \$2.6 million. This compares to interest expense of \$8.0 million and \$0.5 million related to the realized loss on foreign currency remeasurement in the six months ended June 30, 2016.

Income tax provision increased to \$ 8.1 million for the six months ended June 30, 2017 from \$ 4.3 million for the same period in 2016. The higher effective tax rate was primarily due to us not recording tax benefits from operating losses in both the U.S. and at our second manufacturing facility in Turkey. We also recognized additional tax expense during the six months ended June 30, 2017 related to unrecorded tax benefits from U.S. foreign tax credits due to valuation allowances.

Net income for the six months ended June 30, 2017 was \$17.4 million, as compared to \$13.3 million in the same period in 2016. The increase was primarily due to the reasons set forth above.

Net income attributable to preferred shareholders was \$4.9 million for the six months ended June 30, 2016 and there was none in the 2017 period as following our IPO in July 2016, all of our preferred shares were converted to common shares.

Net income attributable to common shareholders was \$17.4 million during the six months ended June 30, 2017, compared to \$8.4 million in the same period in 2016. This was primarily due to the improved operating results discussed above. Diluted earnings per share was \$0.51 for the six months ended June 30, 2017, compared to \$1.99 for the six months ended June 30, 2016.

Segment Discussion

The following table summarizes our net sales and income (loss) from operations by our four geographic operating segments:

	Six Months Ended June 30,	
	2017	2016
Net Sales	(in thousands)	
U.S.	\$ 91,715	\$ 96,830
Asia	175,821	145,805
Mexico	89,069	53,175
EMEA	83,183	74,555
Total net sales	<u>\$ 439,788</u>	<u>\$ 370,365</u>

	Six Months Ended June 30,	
	2017	2016
Income (loss) from Operations	(in thousands)	
U.S. (1)	\$ (18,127)	\$ (5,123)
Asia	40,160	30,764
Mexico	1,968	2,623
EMEA	9,512	(2,597)
Total income from operations	<u>\$ 33,513</u>	<u>\$ 25,667</u>

(1) Includes the costs of our corporate headquarters totaling \$19.1 million and \$10.1 million for the six months ended June 30, 2017 and 2016, respectively.

U.S. Segment

Net sales in the six months ended June 30, 2017 decreased by \$5.1 million or 5.3% to \$91.7 million compared to \$96.8 million in the same period in 2016. The decrease was driven by net sales from the manufacturing of precision molding and assembly systems during the six months ended June 30, 2017 of \$4.6 million compared to \$15.1 million during the same period in 2016. This decrease was primarily the result of model-specific tooling equipment manufactured in our Rhode Island facility in the 2016 period as required by our customers due to the transition to larger wind blade models for use in our Mexico plant as well as for use at the plants of another U.S. wind blade manufacturer. The decrease in our tooling sales was somewhat offset by an increase in our net sales of wind blades which totaled \$80.8 million during the six months ended June 30, 2017 as compared to \$78.8 million in the same period of 2016 on a 7% increase in the number of wind blades delivered as well as \$6.3 million of non-wind related net sales.

The loss from operations for the six months ended June 30, 2017 was \$18.1 million as compared to a loss of \$5.1 million in the same period in 2016. These amounts include corporate general and administrative costs of \$19.1 million for the six months ended June 30, 2017 compared to \$10.1 million for the six months ended June 30, 2016, with 2017 including \$3.2 million of share-based compensation costs as described above. The operating results were favorably impacted by higher gross profit on wind blades delivered during the six months ended June 30, 2017 as compared to the 2016 period, partially offset by the lower precision molding volume discussed above during the six months ended June 30, 2017 as compared to the 2016 period.

Asia Segment

Net sales in the six months ended June 30, 2017 increased by \$30.0 million or 20.6% to \$175.8 million compared to \$145.8 million in the same period in 2016. Net sales of wind blades were \$171.0 million in the six months ended June 30, 2017 as compared to \$141.1 million in the same period of 2016. The increase was the result of a 27% increase in the number of wind blades delivered during the six months ended June 30, 2017 compared to the same period in 2016. These increases were partially offset by a change in the mix of wind blade models sold, lower average sales prices of wind blades due to savings in raw material costs, a portion of which we share with our customers and the unfavorable impact of the fluctuation of the U.S. dollar relative to the Chinese Renminbi of 1.4%. Net sales from the manufacturing of precision molding and assembly systems totaled \$4.8 million during the six months ended June 30, 2017 compared to \$4.7 million during the six months ended June 30, 2016.

Income from operations in the Asia segment for the six months ended June 30, 2017 was \$40.2 million as compared to \$30.8 million in the same period in 2016. In addition to the factors noted above, the increase in income from operations reflects higher gross margins on wind blade sales driven by operating efficiencies and the favorable impact on cost of goods sold of the fluctuation of the U.S. dollar relative to the Chinese Renminbi of 4.7%, partially offset by higher overhead costs in the 2017 period as compared to 2016.

Mexico Segment

Net sales in the six months ended June 30, 2017 increased by \$35.9 million or 67.5% to \$89.1 million compared to \$53.2 million in the same period in 2016, reflecting a 58% increase in wind blade volume at our first Mexico plant and the beginning of wind blade production in our second plant, partially offset by lower average sales prices of wind blades delivered in both periods. Net sales of wind blades represents the entirety of net sales in the Mexico segment in the 2017 and 2016 periods.

Income from operations in the Mexico segment for the six months ended June 30, 2017 was \$2.0 million as compared to \$2.6 million in the same period in 2016. The decrease was largely driven by the startup losses incurred at our two new Mexico facilities, partially offset by the increase in wind blade volume in the 2017 period as compared to 2016 and operating efficiencies at our first Mexico plant, as well as from savings in raw material costs and the favorable impact of the fluctuation of the U.S. dollar relative to the Mexican Peso on cost of goods sold of 1.4%.

EMEA Segment

Net sales during the six months ended June 30, 2017 increased by \$8.6 million or 11.6% to \$83.2 million compared to \$74.6 million in the same period in 2016. The increase was driven by the beginning of wind blade production in our second Turkey plant, partially offset by a 21% decrease in wind blade volume at our first Turkey plant as a result of GE only requiring the minimum volume required under its contract after its decision to not renew or extend its supply agreement with us beyond 2017. We completed 100% of this volume by the end of the quarter to enable us to accelerate the transition of those manufacturing lines to two new manufacturing lines for Nordex Group. Other items having an unfavorable impact on net sales include the mix of wind blades sold during the period as well as overall lower average sales prices of wind blades delivered in both periods due to savings in raw material costs, a portion of which we share with our customers, and the impact of the fluctuation of the U.S. dollar relative to the Euro of 2.5%. Net sales of wind blades represents the entirety of net sales in the EMEA segment in 2017 and 2016.

Income from operations in the EMEA segment for the six months ended June 30, 2017 was \$9.5 million as compared to a loss of \$2.6 million in the same period in 2016. The increase was primarily driven by operating efficiencies, savings in raw material costs, and a large warranty reserve accrual in the 2016 period as well as the favorable impact on cost of goods sold of the fluctuation of the U.S. dollar relative to the Turkish Lira and Euro of 12.7%.

Liquidity and Capital Resources

Our primary needs for liquidity have been, and in the future will continue to be, capital expenditures, new facility startup costs, working capital and debt service 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 \$4.9 million for the six months ended June 30, 2017 as compared to net repayments on financing arrangements and customer advances of \$10.0 million in the comparable period of 2016. As of June 30, 2017, we had \$130.4 million in outstanding indebtedness, excluding debt issuance costs. As of June 30, 2017, we had an aggregate of \$75.8 million of remaining capacity and \$39.3 million of 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. 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 proceeds of our IPO in July 2016, the incurrence of other indebtedness and other potential sources of liquidity.

At June 30, 2017 and December 31, 2016, we had unrestricted cash, cash equivalents and short-term investments totaling \$130.8 million and \$119.1 million, respectively. The June 30, 2017 balance includes \$37.6 million of cash located outside of the United States, including \$30.8 million in China, \$5.7 million in Turkey and \$1.1 million in Mexico. 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% (\$5.2 million) 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, 2016, the amount of the surplus reserve fund was \$4.4 million.

Operating Cash Flows

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Net income	\$ 17,403	\$ 13,301
Depreciation and amortization	8,483	6,173
Share-based compensation expense	3,751	—
Other non-cash items	286	2,339
Changes in assets and liabilities	4,010	(11,638)
Net cash provided by operating activities	<u>\$ 33,933</u>	<u>\$ 10,175</u>

Net cash provided by operating activities totaled \$33.9 million for the six months ended June 30, 2017 and was primarily the result of net income for the period of \$17.4 million, depreciation and amortization of \$8.5 million, share-based compensation costs of \$3.8 million and net changes in working capital. The key components of the \$4.0 million decrease in working capital include a \$34.6 million increase in accounts payable and accrued expenses, a \$7.3 million increase in customer deposits, a \$7.1 million decrease in other noncurrent assets, a \$6.0 million increase in accrued warranty, a \$5.2 million decrease in prepaid expenses and other current assets and a \$4.7 million increase in deferred revenue. This was partially offset by an increase in accounts receivable of \$49.4 million and an \$11.3 million increase in inventory. The working capital changes in accounts receivable, inventory, accounts payable and accrued expenses and deferred revenue are primarily the result of the material increase in and the timing of sales in the six months ended June 30, 2017.

Net cash provided by operating activities totaled \$10.2 million for the six months ended June 30, 2016 and was primarily the result of net income for the period of \$13.3 million, depreciation and amortization of \$6.2 million and other non-cash items of \$2.3 million, partially offset by net changes in working capital. The key components of the \$11.6 million increase in working capital include an increase in accounts receivable of \$14.6 million, a \$9.6 million increase in prepaid expenses and other current assets, a \$2.5 million increase in other noncurrent assets and a \$2.4 million increase in inventory. This was partially offset by a \$17.0 million increase in accrued warranty. The working capital changes in accounts receivable, inventory, accounts payable and accrued expenses and deferred revenue are primarily the result of the material increase in and the timing of sales in the six months ended June 30, 2016.

Investing Cash Flows

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Purchase of property and equipment	\$ (26,727)	\$ (14,244)
Net cash used in investing activities	<u>\$ (26,727)</u>	<u>\$ (14,244)</u>

Net cash used in investing activities totaled \$26.7 million and \$14.2 million for the six months ended June 30, 2017 and 2016, respectively, driven primarily by capital expenditures for new facilities and expansion or improvements at existing facilities. The capital expenditures for the six months ended June 30, 2017 primarily related to our second wind blade plants in Mexico and Turkey

as well as the expansion of our wind blade facility in Dafeng, China. The capital expenditures for the six months ended June 30, 2016 primarily related to our second wind blade plants in Mexico and Turkey as well as the expansion of our original wind blade facilities in Mexico and Turkey.

We anticipate fiscal year 2017 capital expenditures of between \$75 million to \$85 million. We estimate that the cost we will incur after June 30, 2017 to complete our current projects in process is approximately \$5.9 million. We have used and will continue to use cash flow from operations and debt for major projects currently being undertaken, which include the new manufacturing facilities in Mexico and Turkey discussed above, our new manufacturing facility in Matamoros, Mexico as well as our continued investment in our existing wind blade facilities.

Financing Cash Flows

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Repayment of term loan	\$ (1,875)	\$ —
Net proceeds from (repayments of) accounts receivable financing	5,182	(8,565)
Net repayments of working capital loans	(4,638)	(764)
Net proceeds from (repayments of) other debt	6,253	(2,664)
Proceeds from customer advances	—	2,000
Restricted cash	(524)	(648)
Net cash provided by (used in) financing activities	<u>\$ 4,398</u>	<u>\$ (10,641)</u>

The net cash provided by financing activities totaled \$4.4 million for the six months ended June 30, 2017 compared to net cash used in financing activities of \$10.6 million in the comparable period of 2016. Net cash provided by financing activities for the six months ended June 30, 2017 primarily reflects the net proceeds from accounts receivable financing and other growth-related debt, partially offset by net repayments of working capital loans. Net cash used in financing activities for the six months ended June 30, 2016 primarily reflects the net repayments of accounts receivable financing, working capital loans and other debt.

Description of Our Indebtedness

Senior Financing Agreements (U.S.):

In December 2016, we amended and restated our previous credit facility (the Restated Credit Facility). The previous \$100.0 million of available principal was replaced with a \$75.0 million term loan and a \$25.0 million revolving credit facility, which originally included a \$15.0 million letter of credit sub-facility, which was increased to \$20.0 million in April 2017. The borrowings under the Restated Credit Facility bear interest at a variable rate through maturity at LIBOR, with a 1.0% floor, plus 5.75%. The Restated Credit Facility requires us to make quarterly principal payments in the amount of \$0.9 million of the outstanding principal loan balance commencing in March 2017, with the remaining outstanding balance to be repaid on or before December 30, 2020. The Restated Credit Facility contains customary affirmative covenants, negative covenants and events of default, including covenants and restrictions that, among other things, require us and our subsidiaries to satisfy certain capital expenditure and other financial covenants, and restricts the ability of us and our subsidiaries to incur liens, incur additional indebtedness, enter into joint ventures or partnerships, engage in mergers and acquisitions, engage in asset sales and declare dividends on its capital stock without the prior written consent of the lenders. The obligations under the Restated Credit Facility are secured by a lien on substantially all tangible and intangible property of us and our domestic subsidiaries and by a pledge by us and our domestic subsidiaries of 65% of the equity of their direct foreign subsidiaries, subject to customary exceptions and exclusions from collateral.

If we prepay any of the outstanding principal loan balance prior to December 30, 2017, we are required to pay the lenders a premium in an amount equal to the amount of interest that otherwise would have been payable from the date of prepayment until December 30, 2017 plus 3.0% of the amount of the principal loan balance that was prepaid. If we prepay any of the outstanding principal loan balance after December 30, 2017 through December 30, 2018, we are required to pay the lenders 2.0% of the principal loan balance that was prepaid, and if we prepay any of the outstanding loan balance after December 30, 2018 through December 30, 2019, we are required to pay a premium of 1.5% of the amount of the principal loan balance that was prepaid.

As of June 30, 2017 and December 31, 2016, the aggregate outstanding balance under the Restated Credit Facility was \$ 75.9 million and \$77.8 million, respectively. We cannot assure you that we will be able to maintain appropriate minimum leverage or fixed-charge coverage ratio requirements in the future.

Accounts Receivable, Secured and Unsecured Financing:

EMEA: During 2014, we renewed a general credit agreement with a financial institution in Turkey to provide up to \$20.0 million (later updated to 21.0 million Euro, or approximately \$24.0 million as of June 30, 2017) of short-term collateralized financing on invoiced accounts receivable of one of Turkey's customers. Interest accrues annually at a variable rate (currently 5.75%) and is paid quarterly. In December 2014, we obtained an additional \$7.0 million (later decreased to \$5.0 million) of unsecured financing in Turkey under the credit agreement, increasing the total facility. All 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. Amounts outstanding under this agreement as of June 30, 2017 and December 31, 2016 include \$11.6 million and \$15.1 million of accounts receivable financing and none and \$4.6 million of unsecured financing, respectively.

In December 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 (currently 6.5%). The credit agreement does not have a maturity date, however the limits are reviewed in September of each year. Amounts outstanding under this agreement as of June 30, 2017 include \$0.3 million under the accounts receivable financing and no amount outstanding under the unsecured financing facility. No amounts were outstanding under this agreement as of December 31, 2016.

In March 2016, we entered into a general credit agreement, as amended, with a Turkish financial institution to provide up to 35.0 million Euro (approximately \$39.9 million as of June 30, 2017) of short-term financing of which 20.0 million Euro (approximately \$22.8 million as of June 30, 2017) is collateralized financing based on invoiced accounts receivable of one of the EMEA segment's customers and 12.5 million Euro (later increased to 15.0 million Euro, or approximately \$17.1 million as of June 30, 2017) for the collateralized financing of capital expenditures. An additional 1.0 million Euro related to letters of guarantee matured in March 2017. Interest on the collateralized financing based on invoiced accounts receivable accrues at the three month EURIBOR plus 5.75% (currently 5.75%) 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% (currently 6.75%) with monthly principal repayments beginning in October 2017 with a final maturity date of December 2021. Interest on the letters of guarantee accrued at 2.00% annually. As of June 30, 2017 and December 31, 2016, there was \$17.1 million and \$15.8 million outstanding under the collateralized financing of capital expenditures line, respectively. Additionally, as of June 30, 2017, there was \$8.4 million outstanding under the collateralized financing based on invoiced accounts receivables, with no corresponding amounts outstanding as of December 31, 2016.

Asia: In January 2016, we entered into a credit agreement with a Chinese financial institution to provide up to 95.0 million Renminbi (approximately \$13.6 million as of December 31, 2016) of short-term financing of which 85.0 million Renminbi (approximately \$12.2 million as of December 31, 2016) is collateralized financing based on invoiced accounts receivables of one of our Asia segment's customers and 10.0 million Renminbi (approximately \$1.4 million as of December 31, 2016) of working capital loans collateralized by one of our Asia segment location's machinery and equipment. Interest on the collateralized financing and the collateralized working capital loan accrues at a specified LIBOR rate plus an applicable margin and can be paid monthly, quarterly or at the time of the debt's final maturity (January 12, 2017). As of December 31, 2016, there were no amounts outstanding under these accounts receivable financing and working capital loans. This credit agreement matured in January 2017.

In February 2017, we entered into a credit agreement with a Chinese financial institution to provide an unsecured credit line of up to 150.0 million Renminbi (approximately \$22.1 million as of June 30, 2017) which can be used for the purpose of domestic and foreign currency loans, issuing letters of guarantee or other transactions approved by the lender. Interest on the credit line accrues at the LIBOR rate plus an applicable margin and can be paid monthly, quarterly or at the time of the debt's maturity (in February 2018). No amounts were outstanding under this agreement as of June 30, 2017.

Equipment Lease and Other Arrangements: We have entered into certain capital lease and construction loan arrangements in the United States, Mexico and EMEA for equipment used in our operations as well as for office use. These leases bear interest at rates ranging from 4.0% to 9.0% annually, and principal and interest are payable monthly. As of June 30, 2017 and December 31, 2016, there was \$17.0 million and \$12.1 million outstanding under these arrangements, respectively.

Operating Leases: We lease various facilities and equipment under non-cancelable operating lease agreements. As of June 30, 2017, we leased a total of approximately 4.3 million square feet in Dafeng, China; Izmir, Turkey; Newton, Iowa; Juárez, Mexico; Santa Teresa, New Mexico; Taicang City, China; Taicang Port, China; Matamoros, Mexico, Warren, Rhode Island; and Fall River,

Massachusetts, as well as our corporate office in Scottsdale, Arizona. The terms of these leases range from 12 months to 120 months with annual payments approximating \$16 million for the full year 2017.

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 the accounts receivable assignment agreement described below and the operating lease arrangements presented in our Annual Report on Form 10-K. 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 condensed consolidated financial statements and related notes.

In July 2014, our Mexico 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 Mexico segment's customers at a discount calculated based on an effective annual rate of LIBOR plus 2.75%. As these receivables are purchased by the financial institution, they are removed from the Mexico segment's balance sheet. During the three and six months ended June 30, 2017, \$16.4 million and \$42.7 million of receivables were sold to the financial institution, respectively.

Critical Accounting Policies and Estimates

There have been no 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 to our condensed consolidated financial statements.

Contractual Obligations

During the six months ended June 30, 2017, 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 operations in China, Mexico and Turkey. 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 historical consolidated financial statements. In recent years, exchange rates between these currencies and U.S. dollars 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 \$4.1 million and \$6.3 million for the six months ended June 30, 2017 and 2016, respectively.

Commodity Price Risk. We are subject to commodity price risk under agreements for the supply of our raw materials. We have not hedged, nor do we intend to hedge, 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. Additionally, the arrangements we have with our customers limit the impact of any price or cost increases.

Finally, since many of our raw material supply agreements have meet or release clauses, if raw materials prices go down, we can also benefit from the reductions in price. We believe that this adequately protects us from increases in raw material prices but also enables us to take full advantage of decreases. We believe that a 10% change in the price of resin and resin systems, the commodities for which we do not have fixed pricing, would have had an impact to income from operations of approximately \$6.6 million and \$6.0 million for the six months ended June 30, 2017 and 2016, respectively.

Interest Rate Risk. As of June 30, 2017, we have an aggregate of \$ 75.9 million outstanding under the Restated Credit Facility that is tied to LIBOR and an aggregate of \$25.5 million outstanding under a general credit agreement with a Turkish financial institution that is tied to EURIBOR. The Restated Credit Facility and the Turkish general credit agreement are the only variable rate debt instruments outstanding as of June 30, 2017 and December 31, 2016 as all remaining unsecured financing, accounts receivable 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 June 30, 2017, a 10% change in the LIBOR or EURIBOR rate would not have 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 June 30, 2017 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 June 30, 2017.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the three months ended June 30, 2017, 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 may be involved in disputes or litigation relating to claims arising out of our operations.

As previously disclosed in our Annual Report on Form 10-K, in March 2015, a complaint was filed against the Company in the Superior Court of the State of Arizona (Maricopa County) by a former employee of the Company, alleging that the Company had agreed to make certain cash payments to such employee upon any future sale of the Company. We filed a motion to dismiss the complaint in April 2015, which was denied. We subsequently filed an answer to the complaint in July 2015 denying the substantive allegations of the complaint. The parties completed court-ordered mediation in December 2015 but were not able to reach a settlement. We filed a motion for summary judgment to dismiss the complaint in April 2016 and the court denied our motion in August 2016. The court set a trial date for September 2017. In May 2017, we filed a motion for continuance to change the trial date and the court granted our motion. The court has scheduled a telephonic hearing in September 2017 to determine a new trial date. We continue to deny the substantive allegations of the complaint and we intend to vigorously defend this lawsuit; however, we are currently unable to determine the ultimate outcome of this case.

As previously disclosed in our Annual Report on Form 10-K, in August 2015, we entered into a transition agreement with our former Senior Vice President – Asia (SVP–Asia), pursuant to which he transitioned out of this role at the end of 2015 and was to serve in a consulting capacity in 2016 and 2017. In January 2016, following our discovery that he had materially violated the terms of his transition agreement, we terminated his consultancy for cause. In April 2016, he filed an arbitration claim in China with the Taicang Labor and Personnel Dispute Arbitration Committee alleging that we improperly terminated his transition agreement. He is demanding that we continue to honor the terms of the transition agreement and pay him compensation and fees owed to him under the transition agreement, which in the aggregate total approximately \$2.6 million. In addition, he is also challenging the validity of our termination of his option to purchase 164,880 shares of our common stock and 77,760 restricted stock units under the 2015 Plan, which were canceled in January 2016 when we terminated his consultancy. In May 2017, the arbitration committee awarded our former SVP–Asia approximately fifty percent of the amounts demanded under the transition agreement but denied his claims regarding the improper termination of his stock option and restricted stock units. We have appealed the arbitration committee’s award of damages in favor of our former SVP–Asia and the appeal remains pending. We previously established a reserve for this matter and we do not believe the award, if upheld on appeal, will have a material impact on our operating results or financial condition.

Item 1A. Risk Factors

In addition to other information set forth in this Form 10-Q, careful consideration should be given to the Risk Factors (Part I, Item 1A) and Management’s Discussion and Analysis of Financial Condition and Results of Operations (Part II, Item 7) in our Annual Report on Form 10-K, which could materially affect the Company’s business, financial condition, and/or future results.

Item 2. Unregistered Sales of Equity Securities and 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>
10.1	Amendment No. 5 to Financing Agreement between the Registrant, HPS Investment Partners, LLC and the other parties named therein, dated August 19, 2014, as amended (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K/A (File No. 001-37839) filed on May 5, 2017)
10.2†	Amended and Restated Financing Agreement between the Registrant and HPS Investment Partners, LLC, and other parties named therein, dated December 30, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K/A (File No. 001-37839) filed on April 20, 2017)
10.3†	Supply Agreement between General Electric International, Inc. and TPI Mexico III, LLC, entered into as of October 4, 2016 (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K/A (File No. 001-37839) filed on April 20, 2017)
10.4†	Amended and Restated Supply Agreement between General Electric International, Inc. and TPI Iowa, LLC, entered into as of October 4, 2016 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K/A (File No. 001-37839) filed on April 20, 2017)
10.5†	First Amendment to Supply Agreement between General Electric International, Inc. and TPI Mexico, LLC, entered into as of October 4, 2016 (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K/A (File No. 001-37839) filed on April 20, 2017)
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.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

† Confidential treatment has been requested for certain provisions of this Exhibit pursuant to Rule 406 promulgated under the Securities Act of 1933.

* 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: August 8, 2017

TPI COMPOSITES, INC.

By: /s/ William E. Siwek
William E. Siwek
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)) 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) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);

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: August 8, 2017

By: /s/ Steven C. Lockard

Steven C. Lockard

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, William E. Siwek, 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)) 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) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);

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: August 8, 2017

By: /s/ William E. Siwek
William E. Siwek
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 June 30, 2017 (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: August 8, 2017

By: /s/ Steven C. Lockard
Steven C. Lockard
President and 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, William E. Siwek, 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 June 30, 2017 (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: August 8, 2017

By: /s/ William E. Siwek
William E. Siwek
Chief Financial Officer
(Principal Financial and Accounting Officer)