

FIRST SOLAR, INC.
Form 10-Q
April 28, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2016
or

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

For the transition period from _____ to _____

Commission file number: 001-33156

First Solar, Inc.

(Exact name of registrant as specified in its charter)

Delaware

20-4623678

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

350 West Washington Street, Suite 600

Tempe, Arizona 85281

(Address of principal executive offices, including zip code)

(602) 414-9300

(Registrant's telephone number, including area code)

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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

As of April 22, 2016, 102,245,107 shares of the registrant's common stock, \$0.001 par value per share, were outstanding.

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FIRST SOLAR, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net sales	\$848,484	\$469,209
Cost of sales	585,539	430,228
Gross profit	262,945	38,981
Operating expenses:		
Research and development	30,187	34,756
Selling, general and administrative	67,503	67,688
Production start-up	—	6,650
Total operating expenses	97,690	109,094
Operating income (loss)	165,255	(70,113)
Foreign currency loss, net	(3,240)	(221)
Interest income	6,406	5,064
Interest expense, net	(4,642)	(194)
Other income (expense), net	35,553	(1,259)
Income (loss) before taxes and equity in earnings of unconsolidated affiliates	199,332	(66,723)
Income tax (expense) benefit	(33,764)	5,980
Equity in earnings of unconsolidated affiliates, net of tax	4,997	(174)
Net income (loss)	\$170,565	\$(60,917)
Net income (loss) per share:		
Basic	\$1.67	\$(0.61)
Diluted	\$1.66	\$(0.61)
Weighted-average number of shares used in per share calculations:		
Basic	101,853	100,375
Diluted	102,745	100,375

See accompanying notes to these condensed consolidated financial statements.

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FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net income (loss)	\$ 170,565	\$(60,917)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	5,542	(15,393)
Unrealized gain on marketable securities and restricted investments	5,966	38,287
Unrealized gain (loss) on derivative instruments	106	(1,560)
Other comprehensive income, net of tax	11,614	21,334
Comprehensive income (loss)	\$ 182,179	\$(39,583)

See accompanying notes to these condensed consolidated financial statements.

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FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,086,280	\$ 1,126,826
Marketable securities	794,220	703,454
Accounts receivable trade, net	349,467	500,629
Accounts receivable, unbilled and retainage	86,875	59,171
Inventories	443,777	380,424
Balance of systems parts	155,233	136,889
Deferred project costs	131,249	187,940
Notes receivable, affiliate	389	1,276
Prepaid expenses and other current assets	226,667	248,977
Total current assets	3,274,157	3,345,586
Property, plant and equipment, net	1,278,386	1,284,136
PV solar power systems, net	102,249	93,741
Project assets and deferred project costs	1,375,468	1,111,137
Deferred tax assets, net	359,959	357,693
Restricted cash and investments	401,703	333,878
Investments in unconsolidated affiliates and joint ventures	392,169	399,805
Goodwill	84,985	84,985
Other intangibles, net	107,020	110,002
Inventories	106,085	107,759
Notes receivable, affiliates	17,851	17,887
Other assets	77,757	69,722
Total assets	\$7,577,789	\$ 7,316,331
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$274,991	\$ 337,668
Income taxes payable	7,414	1,330
Accrued expenses	351,865	409,452
Current portion of long-term debt	94,080	38,090
Billings in excess of costs and estimated earnings	148,328	87,942
Payments and billings for deferred project costs	104,076	28,580
Other current liabilities	83,375	57,738
Total current liabilities	1,064,129	960,800
Accrued solar module collection and recycling liability	167,650	163,407
Long-term debt	205,262	251,325
Other liabilities	401,803	392,312
Total liabilities	1,838,844	1,767,844
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value per share; 500,000,000 shares authorized; 102,219,007 and 101,766,797 shares issued and outstanding at March 31, 2016 and December 31, 2015,	102	102

respectively

Additional paid-in capital	2,751,074	2,742,795
Accumulated earnings	2,960,675	2,790,110
Accumulated other comprehensive income	27,094	15,480
Total stockholders' equity	5,738,945	5,548,487
Total liabilities and stockholders' equity	\$7,577,789	\$ 7,316,331

See accompanying notes to these condensed consolidated financial statements.

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FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	\$ 170,565	\$(60,917)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	58,375	63,260
Share-based compensation	11,478	12,079
Remeasurement of monetary assets and liabilities	(4,184 )	) 11,829
Deferred income taxes	(1,829 )	) 28,141
Excess tax benefits from share-based compensation arrangements	(13,716 )	) (14,449)
Gain on sales of marketable securities and restricted investments	(37,804)) —
Other, net	(2,961 )	) 2,980
Changes in operating assets and liabilities:		
Accounts receivable, trade, unbilled and retainage	117,343	(125,066)
Prepaid expenses and other current assets	(27,536 )	) (1,985)
Inventories and balance of systems parts	(79,541 )	) 9,433
Project assets and deferred project costs	(176,232 )	) (301,943)
Other assets	(12,644 )	) (347)
Accounts payable	(59,853 )	) 3,595
Income taxes payable	22,418	(66,815)
Accrued expenses and other liabilities	83,251	21,570
Accrued solar module collection and recycling liability	3,364	(5,982)
Net cash provided by (used in) operating activities	50,494	(424,617)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(51,754 )	) (55,342)
Purchases of marketable securities and restricted investments	(268,963 )	) (374,128)
Proceeds from sales and maturities of marketable securities and restricted investments	179,300	176,759
Purchases of equity and cost method investments	(5,409 )	) (1,508)
Distributions received from equity method investments	1,502	—
Investments in notes receivable, affiliates	—	(45,288)
Payments received on notes receivable, affiliate	—	11,671
Change in restricted cash	34,427	(2,109)
Other investing activities	250	(688)
Net cash used in investing activities	(110,647 )	) (290,633)
Cash flows from financing activities:		
Repayment of long-term debt	(15,424 )	) (21,122)
Proceeds from borrowings under long-term debt, net of discounts and issuance costs	16,619	58,089
Repayment of sale-leaseback financing	(1,616)) —
Excess tax benefits from share-based compensation arrangements	13,716	14,449
Contingent consideration payments and other financing activities	(111 )	) (24,160)
Net cash provided by financing activities	13,184	27,256
Effect of exchange rate changes on cash and cash equivalents	6,423	(14,152)
Net decrease in cash and cash equivalents	(40,546)) (702,146)

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Cash and cash equivalents, beginning of the period	1,126,826	1,482,054
Cash and cash equivalents, end of the period	\$1,086,280	\$779,908
Supplemental disclosure of noncash investing and financing activities:		
Equity interests retained from the partial sale of project assets	\$(25,921)	\$1,308
Property, plant and equipment acquisitions funded by liabilities	\$14,406	\$38,640
Acquisitions currently or previously funded by liabilities and contingent consideration	\$24,813	\$29,850

See accompanying notes to these condensed consolidated financial statements.

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FIRST SOLAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of First Solar, Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (the “SEC”). Accordingly, these interim financial statements do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. In the opinion of First Solar management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement have been included. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or for any other period. The condensed consolidated balance sheet at December 31, 2015 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These interim financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2015 included in our Annual Report on Form 10-K, which has been filed with the SEC.

Unless expressly stated or the context otherwise requires, the terms “the Company,” “we,” “our,” “us,” and “First Solar” refer to First Solar, Inc. and its subsidiaries.

Revision of Previously Issued Financial Statements

During the three months ended September 30, 2015, we revised our previously issued financial statements, including periods presented in this Quarterly Report on Form 10-Q, to properly record a liability associated with an uncertain tax position, including penalties, related to income of a foreign subsidiary along with corresponding adjustments in each successive period for the effect of changes in foreign currency exchange rates associated with the liability. Additional revisions were made for previously identified errors related to share-based compensation that were corrected in a period subsequent to the period in which the error originated.

We evaluated the aggregate effects of the errors to our previously issued financial statements in accordance with SEC Staff Accounting Bulletins No. 99 and No. 108 and, based upon quantitative and qualitative factors, determined that the errors were not material to our previously issued financial statements. As part of this evaluation, we considered a number of qualitative factors, including, among others, that the errors did not change a net loss into net income or vice versa, did not have an impact on our long-term debt covenant compliance, and did not mask a change in earnings or other trends when considering the overall competitive and economic environment within the industry during the periods. However, the cumulative effect of the errors, including the uncertain tax position matter identified during the three months ended September 30, 2015, was significant to our financial results for the year ended December 31, 2015. Accordingly, all financial information presented in the accompanying notes to these condensed consolidated financial statements was revised to reflect the correction of these errors. Periods not presented herein will be revised, as applicable, as they are included in future filings.

The following table presents the effect of the aforementioned revisions on our condensed consolidated statement of operations for the three months ended March 31, 2015 (in thousands, except per share amounts):