FIRST SOLAR, INC.
Form 10-Q
August 02, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark one)

[x]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended June 26, 2010
	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	(I.R.S. Employer
incorporation or organization)	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 [x] 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [x] 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. (Check one):

Large accelerated filer [x]	Accelerated filer [ ]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

As of July 23, 2010 there were 85,554,984 shares of the registrant's common stock, par value $0.001, outstanding.

FIRST SOLAR, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 26, 2010

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Item 1. Unaudited Condensed Consolidated Financial Statements

FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 26, 2010	June 27, 2009	June 26, 2010	June 27, 2009
Net sales	$ 587,854	$ 525,876	$ 1,155,815	$ 944,084
Cost of sales	303,660	227,780	589,585	410,704
Gross profit	284,194	298,096	566,230	533,380
Operating expenses:				
Research and development	22,836	18,605	45,724	30,309
Selling, general and administrative	78,597	72,926	145,461	122,241
Production start-up	2,288	2,524	3,431	8,733
Total operating expenses	103,721	94,055	194,616	161,283
Operating income	180,473	204,041	371,614	372,097
Foreign currency (loss) gain	(2,625)	239	(3,321)	2,073
Interest income	3,035	1,948	8,683	4,051
Interest expense, net	(6)	(3,827)	(6)	(4,762)
Other expense, net	(439)	(1,103)	(1,173)	(2,429)
Income before income taxes	180,438	201,298	375,797	371,030
Income tax expense	21,395	20,719	44,409	25,856
Net income	$ 159,043	$ 180,579	$ 331,388	$ 345,174
Net income per share:				
Basic	$ 1.87	$ 2.16	$ 3.91	$ 4.17
Diluted	$ 1.84	$ 2.11	$ 3.84	$ 4.10
Weighted-average number of shares used in per share calculations:				
Basic	84,852	83,723	84,679	82,704
Diluted	86,401	85,668	86,247	84,140

See accompanying notes to these condensed consolidated financial statements.

FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	June 26, 2010	December 26, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 510,482	$ 664,499
Marketable securities and investments	285,993	120,236
Accounts receivable trade, net	256,344	226,826
Accounts receivable, unbilled	105,333	58
Inventories	194,308	152,821
Project assets	109	1,081
Deferred tax asset, net	19,248	21,679
Prepaid expenses and other current assets	244,053	164,071
Total current assets	1,615,870	1,351,271
Property, plant and equipment, net	1,094,877	988,782
Project assets	140,065	131,415
Deferred tax asset, net	157,778	130,515
Marketable securities	164,017	329,608
Restricted cash and investments	81,103	36,494
Investment in related party	25,000	25,000
Goodwill	286,515	286,515
Inventories	30,655	21,695
Other assets	35,435	48,217
Total assets	$ 3,631,315	$ 3,349,512
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 68,268	$ 75,744
Income tax payable	28,552	8,740
Accrued expenses	183,889	193,277
Current portion of long-term debt	24,465	28,559
Other current liabilities	20,045	88,607
Total current liabilities	325,219	394,927
Accrued solar module collection and recycling liability	101,757	92,799
Long-term debt	114,168	146,399
Other liabilities	77,925	62,600
Total liabilities	619,069	696,725

Stockholders' equity:		
Common stock, $0.001 par value per share; 500,000,000 shares authorized; 85,546,131 and 85,208,199 shares issued and outstanding at June 26, 2010 and December 26, 2009, respectively	86	85
Additional paid-in capital	1,694,607	1,658,091
Contingent consideration	1,607	2,844
Accumulated earnings	1,332,750	1,001,363
Accumulated other comprehensive loss	(16,804)	(9,596)
Total stockholders' equity	3,012,246	2,652,787
Total liabilities and stockholders' equity	$ 3,631,315	$ 3,349,512

See accompanying notes to these condensed consolidated financial statements.

FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	June 26, 2010	June 27, 2009
Cash flows from operating activities:		
Cash received from customers	$ 955,086	$ 671,786
Cash paid to suppliers and associates	(824,407)	(506,638)
Interest received	12,560	3,294
Interest paid	(2,551)	(4,714)
Income taxes paid, net of refunds	(31,712)	(64,597)
Excess tax benefit from share-based compensation arrangements	—	(15,351)
Other operating activities	(1,376)	(970)
Net cash provided by operating activities	107,600	82,810
Cash flows from investing activities:		
Purchases of property, plant and equipment	(239,506)	(145,966)
Purchases of marketable securities and investments	(267,304)	(264,881)
Proceeds from maturities of marketable securities and investments	59,256	42,000
Proceeds from sales of marketable securities and investments	203,903	29,783
Investment in notes receivable	—	(35,383)
Payments received on notes receivables	61,658	—
Increase in restricted investments	(43,064)	(42,439)
Acquisitions, net of cash acquired	—	318
Other investing activities	1,308	(1,167)
Net cash used in investing activities	(223,749)	(417,735)
Cash flows from financing activities:		
Proceeds from stock option exercises	3,709	3,820
Repayment of long-term debt	(14,004)	(14,256)
Proceeds from issuance of debt, net of issuance costs	—	48,622
Excess tax benefit from share-based compensation arrangements	—	15,351
Proceeds from economic development funding	—	615
Other financing activities	(2)	(2)
Net cash (used in) provided by financing activities	(10,297)	54,150
Effect of exchange rate changes on cash and cash equivalents	(27,571)	(6,283)

Net decrease in cash and cash equivalents	(154,017)	(287,058)
Cash and cash equivalents, beginning of the period	664,499	716,218
Cash and cash equivalents, end of the period	$ 510,482	$ 429,160
Supplemental disclosure of noncash investing and financing activities:		
Property, plant and equipment acquisitions funded by liabilities	$ 30,457	$ 48,041

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)
Six Months Ended June 26, 2010

Note 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 (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 management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement have been included. Operating results for the three months and six months ended June 26, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010, or for any other period. The balance sheet at December 26, 2009 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 financial statements and notes should be read in conjunction with the financial statements and notes thereto for the year ended December 26, 2009 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission.

We currently report our results of operations using a 52 or 53 week fiscal year, which ends on the Saturday on or before December 31. Our fiscal quarters end on the Saturday closest to the end of the applicable calendar quarter. As discussed in "Part II, Item 5. Other Information," of this Quarterly Report on Form 10-Q, on July 27, 2010 our board of directors changed our fiscal year to a calendar year, such that fiscal 2010 will end on December 31, 2010. In addition, effective January 1, 2011, our fiscal quarters shall be calendar quarters.

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

Note 2. Summary of Significant Accounting Policies

These condensed consolidated financial statements and accompanying notes should be read in conjunction with our annual consolidated financial statements and notes thereto for the year ended December 26, 2009 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission. Our significant accounting policies reflect the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (ASC) 605, Revenue Recognition - Multiple Deliverable Revenue Arrangements, in the first quarter of 2010.

Note 3. Recent Accounting Pronouncements

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855) - Amendments to Certain Recognition and Disclosure Requirements. This ASU removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. All the amendments in ASU 2010-09 were effective upon issuance (February 24, 2010) except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010. The adoption of ASU 2010-09 did not have any impact on our financial position, results of operations, or cash flows.

In March 2010, the FASB issued ASU 2010-11, Derivatives and Hedging (Topic 815) - Scope Exception Related to Embedded Credit Derivatives. This ASU removes a scope exception, and an entity that has a beneficial interest in securitized financial assets that includes a credit derivative feature, other than in the form of the transfer of credit risk by subordination of one financial instrument to another, must evaluate that feature for bifurcation from the host financial asset in accordance with the guidance at ASC 815. ASU 2010-11 is effective at the beginning of a reporting entity's first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of an entity's first fiscal quarter beginning after March 5, 2010. The adoption of ASU 2010-11 at the beginning of our second fiscal quarter in 2010 did not have a material impact on our financial position, results of operations, or cash flows.

Note 4. Acquisitions

OptiSolar

On April 3, 2009, we completed the acquisition of the solar power project development business (the Project Business) of OptiSolar Inc. (OptiSolar), which included a multi-gigawatt project pipeline. We have integrated the acquired project pipeline of OptiSolar into our systems business, which provides a complete photovoltaic (PV) solar power system solution, including project development, EPC services, O&M services and, when required, project finance.

Pursuant to an Agreement and Plan of Merger (the Merger Agreement) dated March 2, 2009, by and among First Solar, Inc., First Solar Acquisition Corp. (Merger Sub), OptiSolar and OptiSolar Holdings LLC (OptiSolar Holdings), Merger Sub merged with and into OptiSolar, with OptiSolar surviving as a wholly-owned subsidiary of First Solar, Inc. (the Merger). Pursuant to the Merger, all the outstanding shares of common stock of OptiSolar held by OptiSolar Holdings were exchanged for 2,972,420 shares of First Solar common stock, par value $0.001 per share (the Merger Shares), of which 732,789 shares were issued and deposited with an escrow agent to support certain indemnification obligations of OptiSolar Holdings. On April 16, 2010, 183,197 shares of the common stock deposited with an escrow agent were released.

Also, 355,096 shares were holdback shares as further described below under “Contingent Consideration” (the “Holdback Shares”). As of June 26, 2010, 2,960,461 Merger Shares had been issued. The period during which claims for indemnification from the escrow fund may be initiated began on April 3, 2009 and will end on April 3, 2011.

Purchase Price Consideration

The total consideration for this acquisition, based on the closing price of our common stock on April 3, 2009 of $134.38 per share, was $399.4 million.

Contingent Consideration

Pursuant to the Merger Agreement, of the 2,972,420 Merger Shares, as of April 3, 2009, 355,096 shares were Holdback Shares that were issuable to OptiSolar Holdings upon satisfaction of conditions relating to certain then-existing liabilities of OptiSolar. As of June 26, 2010, 343,137 Holdback Shares had been issued to OptiSolar Holdings. The estimated fair value of the 11,959 Holdback Shares remaining to be issued at June 26, 2010 was $1.6 million and has been classified separately within stockholders' equity on our balance sheet.

Acquisition Related Costs

Acquisition-related costs recognized in the three and six months ended June 27, 2009, included transaction costs and integration costs, which we have classified in selling, general and administrative expense in our statement of operations. During the three and six months ended June 27, 2009, transaction costs such as legal, accounting, and other professional services were $0.2 million and $1.6 million, respectively. Integration related costs during the three and six months ended June 27, 2009 were $0.5 million and $0.6 million, respectively.

Goodwill

We recorded the excess of the acquisition date fair value of consideration transferred over the estimated fair value of the net tangible assets and intangible assets acquired as goodwill. Underlying our financial rationale for the price we paid to acquire OptiSolar were synergies and economies of scale that we expected would inure to our solar module business from our having control over OptiSolar's project pipeline. Subsequent to the acquisition of OptiSolar, we adjusted goodwill downward during 2009 by $8.5 million as additional information relating to acquired deferred tax assets became available. We have allocated $251.3 million and $1.4 million of this goodwill to our components reporting segment and our systems segment, respectively. We allocated the majority of the goodwill from the OptiSolar acquisition to the components segment, since the systems segment functions as an "enabler" for the components segment to drive module throughput. This goodwill is not deductible for tax purposes.

Acquired project assets

Management engaged a third-party valuation firm to assist with the determination of the fair value of the acquired project development business. In our determination of the fair value of the project assets acquired, we considered, among other factors, three generally accepted valuation approaches: the income approach, market approach, and cost approach. We selected the approaches that are most indicative of fair value of the assets acquired. We used the income approach to calculate the fair value of the acquired project assets based on estimates and assumptions of future performance of these project assets provided by OptiSolar's and our management. We used the market approach to determine the fair value of the land acquired with those assets.

Note 5. Goodwill

Goodwill

On November 30, 2007, we acquired 100% of the outstanding membership interests of Turner Renewable Energy, LLC. Under the purchase method of accounting, we allocated $33.4 million to goodwill through December 29, 2007, which represents the excess of the purchase price over the fair value of the identifiable net tangible and intangible assets of Turner Renewable Energy, LLC. All of this goodwill was allocated to our systems segment. At June 26, 2010 and December 26, 2009, the carrying amount of this goodwill was $33.8 million.

On April 3, 2009 we acquired the solar power project development business of OptiSolar. Under the acquisition method of accounting, we allocated $261.1 million to goodwill (excluding subsequent adjustments of $8.5 million), which primarily represents the synergies and economies of scale expected from acquiring OptiSolar's project pipeline and using our solar modules in the acquired projects.

During 2009, we adjusted goodwill downward by $8.5 million as additional information relating to acquired deferred tax assets became available. We have allocated $251.3 million and $1.4 million of this goodwill to our components reporting segment and systems segment, respectively. At June 26, 2010 and December 26, 2009, the carrying amount of this goodwill was $252.7 million. See Note 4. “Acquisitions,” to these condensed consolidated financial statements for additional information about this acquisition.

The changes in the carrying amount of goodwill for the six months ended June 26, 2010 were as follows (in thousands):

	Components	Systems	Consolidated
Ending balance, December 26, 2009	$ 251,275	$ 35,240	$ 286,515
Adjustments	—	—	—
Ending balance, June 26, 2010	$ 251,275	$ 35,240	$ 286,515

ASC 350, Intangibles - Goodwill and Other, requires us to test goodwill for impairment at least annually, or sooner, if facts or circumstances between scheduled annual tests indicate that it is more likely than not that the fair value of a reporting unit that has goodwill might be less than its carrying value. Currently our operating segments and reporting units are identical. We determine fair value for our reporting units referring to the price that would be received to sell the unit as whole in an orderly transaction between market participants at the measurement date. For the goodwill assessment of our systems business, we believe that a typical market participant for the sale of our systems reporting unit would be a solar module manufacturer seeking to acquire a systems business with a large pipeline of utility-scale solar power plant projects, with the intent that these projects would provide a captive outlet for additional future solar module production. Therefore, we model the systems reporting unit's future performance for purposes of applying the income and cost methods of fair value measurement to include some of the profitability associated with the solar module element of the solar power plant that it builds and sells.

We performed our goodwill impairment test in the fourth fiscal quarter of the year ended December 26, 2009 and determined that the fair value of our goodwill substantially exceeded the carrying value for each individual reporting unit. Therefore we concluded that our goodwill was not impaired. We have also concluded that there have been no changes in facts and circumstances since the date of that test that would trigger an interim goodwill impairment test.

Note 6. Cash, Marketable Securities, and Investments

Cash, cash equivalents, marketable securities, and investments consisted of the following at June 26, 2010 and December 26, 2009 (in thousands):

	June 26, 2010	December 26, 2009
Cash and cash equivalents:		
Cash	$ 267,366	$ 269,068
Cash equivalents:		
Commercial paper	6,796	—
Money market mutual funds	236,320	395,431
Total cash and cash equivalents	510,482	664,499
Marketable securities and investments:		
Asset-backed securities	865	5,544
Certificates of deposit	10,700	—
Commercial paper	10,792	—
Corporate debt securities	134,022	115,248
Federal agency debt	41,645	78,911
Foreign agency debt	187,214	168,963
Foreign government obligations	14,652	10,128
Supranational debt	48,107	71,050
U.S. government obligations	2,013	—
Total marketable securities and investments	450,010	449,844
Total cash, cash equivalents, marketable securities, and investments	$ 960,492	$ 1,114,343

We have classified our marketable securities as “available-for-sale.” Accordingly, we record them at fair value and account for net unrealized gains and losses as a part of accumulated other comprehensive income. We report realized gains and losses on the sale of our marketable securities in earnings, computed using the specific identification method. During the three and six months ended June 26, 2010, we realized $0.4 million and $0.7 million in gains and $0.4 million and $0.5 million in losses on our marketable securities. During the three and six months ended June 27, 2009, we realized an immaterial amount in gains and did not realize any losses on our marketable securities. See Note 10. “Fair Value Measurement,” to these condensed consolidated financial statements for information about the fair value measurement of our marketable securities.

All of our available-for-sale marketable securities are subject to a periodic impairment review. We consider a marketable debt security to be impaired when its fair value is less than its carrying cost, in which case we would further review the investment to determine whether it is other-than-temporarily impaired. When we evaluate an investment for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, our intent to sell, and whether it is more likely than not we will be required to sell the investment before we have recovered its cost basis. If an investment is other-than-temporarily impaired, we write it down through earnings to its impaired value and establish that as a new cost basis for the investment. We did not identify any of our marketable securities as other-than-temporarily impaired at June 26, 2010 and December 26, 2009.

The following table summarizes the unrealized gains and losses related to our investments in marketable securities designated as available-for-sale, by major security type, as of June 26, 2010 and December 26, 2009 (in thousands):

	As of June 26, 2010			
Security Type	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Asset-backed securities	$ 857	$ 9	$ 1	$ 865
Certificates of deposit	10,702	—	2	10,700
Commercial paper	10,792	—	—	10,792
Corporate debt securities	133,613	537	128	134,022
Federal agency debt	41,619	26	—	41,645
Foreign agency debt	186,908	379	73	187,214
Foreign government obligations	14,603	58	9	14,652
Supranational debt	47,897	210	—	48,107
U.S. government obligations	2,008	5	—	2,013
Total	$ 448,999	$ 1,224	$ 213	$ 450,010

	As of December 26, 2009			
Security Type	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Asset-backed securities	$ 5,528	$ 19	$ 3	$ 5,544
Corporate debt securities	114,912	475	139	115,248
Federal agency debt	78,803	108	—	78,911
Foreign agency debt	168,541	588	166	168,963
Foreign government obligations	10,057	71	—	10,128
	70,807	269	26	71,050

Supranational debt				
Total	$ 448,648	$ 1,530	$ 334	$ 449,844

Contractual maturities of our available-for-sale marketable securities and investments as of June 26, 2010 and December 26, 2009 were as follows (in thousands):

	As of June 26, 2010			
Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
One year or less	$ 285,607	$ 563	$ 177	$ 285,993
One year to two years	161,679	661	36	162,304
Two years to three years	1,713	—	—	1,713
Total	$ 448,999	$ 1,224	$ 213	$ 450,010

	As of December 26, 2009
Maturity	