

FIRST SOLAR, INC.
Form 10-Q
July 27, 2018

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

Form 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2018
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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐ (Do not check if a smaller reporting company)

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of July 20, 2018, 104,802,050 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 JUNE 30, 2018

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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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net sales	\$309,318	\$623,326	\$876,583	\$1,515,117
Cost of sales	317,376	512,433	711,843	1,320,040
Gross (loss) profit	(8,058)	110,893	164,740	195,077
Operating expenses:				
Selling, general and administrative	50,854	48,957	91,980	97,156
Research and development	20,370	21,341	40,694	44,140
Production start-up	24,352	8,381	61,436	9,531
Restructuring and asset impairments	—	18,286	—	38,317
Total operating expenses	95,576	96,965	194,110	189,144
Operating (loss) income	(103,634)	13,928	(29,370)	5,933
Foreign currency gain (loss), net	2,422	(2,444)	(95)	(2,198)
Interest income	16,865	7,555	28,689	13,972
Interest expense, net	(6,065)	(6,374)	(11,247)	(15,543)
Other (loss) income, net	(4,328)	(2,699)	13,606	23,162
(Loss) income before taxes and equity in earnings	(94,740)	9,966	1,583	25,326
Income tax benefit (expense)	6,164	40,028	(5,461)	34,349
Equity in earnings, net of tax	40,085	1,969	38,338	1,417
Net (loss) income	\$(48,491)	\$51,963	\$34,460	\$61,092
Net (loss) income per share:				
Basic	\$(0.46)	\$0.50	\$0.33	\$0.59
Diluted	\$(0.46)	\$0.50	\$0.32	\$0.58
Weighted-average number of shares used in per share calculations:				
Basic	104,776	104,338	104,664	104,221
Diluted	104,776	104,611	106,234	104,511

See accompanying notes to these condensed consolidated financial statements.

Table of ContentsFIRST SOLAR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net (loss) income	\$(48,491)	\$51,963	\$34,460	\$61,092
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(15,059)	(4,038)	(9,045)	603
Unrealized gain (loss) on marketable securities and restricted investments, net of tax of \$41, \$(466), \$3,151, and \$(350)	506	4,523	(25,418)	(267)
Unrealized gain (loss) on derivative instruments, net of tax of \$(914), \$187, \$(978), and \$1,000	2,899	(298)	1,967	(2,452)
Other comprehensive (loss) income	(11,654)	187	(32,496)	(2,116)
Comprehensive (loss) income	\$(60,145)	\$52,150	\$1,964	\$58,976

See accompanying notes to these condensed consolidated financial statements.

Table of ContentsFIRST SOLAR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,024,491	\$ 2,268,534
Marketable securities	1,110,421	720,379
Accounts receivable trade, net	125,379	211,797
Accounts receivable, unbilled and retainage	177,711	174,608
Inventories	234,201	172,370
Balance of systems parts	72,411	28,840
Project assets	62,475	77,931
Notes receivable, affiliate	21,398	20,411
Prepaid expenses and other current assets	157,553	157,902
Total current assets	3,986,040	3,832,772
Property, plant and equipment, net	1,484,177	1,154,537
PV solar power systems, net	316,564	417,108
Project assets	500,863	424,786
Deferred tax assets, net	93,730	51,417
Restricted cash and investments	332,043	424,783
Equity method investments	8,110	217,230
Goodwill	14,462	14,462
Intangibles assets, net	77,095	80,227
Inventories	119,160	113,277
Note receivable, affiliate	—	48,370
Other assets	93,448	85,532
Total assets	\$7,025,692	\$ 6,864,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$161,139	\$ 120,220
Income taxes payable	29,822	19,581
Accrued expenses	381,053	366,827
Current portion of long-term debt	7,741	13,075
Deferred revenue	199,482	81,816
Other current liabilities	36,175	48,757
Total current liabilities	815,412	650,276
Accrued solar module collection and recycling liability	166,837	166,609
Long-term debt	448,554	380,465
Other liabilities	484,061	568,454
Total liabilities	1,914,864	1,765,804
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value per share; 500,000,000 shares authorized; 104,797,535 and 104,468,460 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	105	104
Additional paid-in capital	2,809,272	2,799,107

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Accumulated earnings	2,331,688	2,297,227
Accumulated other comprehensive (loss) income	(30,237)	2,259
Total stockholders' equity	5,110,828	5,098,697
Total liabilities and stockholders' equity	\$7,025,692	\$ 6,864,501

See accompanying notes to these condensed consolidated financial statements.

Table of ContentsFIRST SOLAR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$34,460	\$61,092
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, amortization and accretion	54,764	60,940
Impairments and net losses on disposal of long-lived assets	4,214	31,881
Share-based compensation	19,236	15,423
Equity in earnings, net of tax	(38,338)	(1,417)
Distributions received from equity method investments	12,394	11,180
Remeasurement of monetary assets and liabilities	6,178	(8,973)
Deferred income taxes	(49,788)	(21,887)
Gains on sales of marketable securities and restricted investments	(19,472)	(49)
Liabilities assumed by customers for the sale of systems	(60,307)	—
Other, net	(76)	29
Changes in operating assets and liabilities:		
Accounts receivable, trade, unbilled and retainage	81,655	(135,234)
Prepaid expenses and other current assets	(27,384)	23,409
Inventories and balance of systems parts	(112,145)	55,221
Project assets and PV solar power systems	(1,167)	626,002
Other assets	(7,575)	(8,070)
Income tax receivable and payable	28,562	(12,231)
Accounts payable	22,627	(37,902)
Accrued expenses and other liabilities	134,961	(340,845)
Accrued solar module collection and recycling liability	1,057	6,771
Net cash provided by operating activities	83,856	325,340
Cash flows from investing activities:		
Purchases of property, plant and equipment	(372,623)	(217,502)
Purchases of marketable securities and restricted investments	(761,633)	(364,277)
Proceeds from sales and maturities of marketable securities and restricted investments	471,444	252,809
Proceeds from sales of equity method investments	247,595	—
Payments received on notes receivable, affiliates	48,369	114
Other investing activities	(5,973)	2,414
Net cash used in investing activities	(372,821)	(326,442)
Cash flows from financing activities:		
Repayment of long-term debt	(18,140)	(23,014)
Proceeds from borrowings under long-term debt, net of discounts and issuance costs	100,198	137,804
Payments of tax withholdings for restricted shares	(10,251)	(4,247)
Proceeds from commercial letters of credit	—	43,025
Contingent consideration payments and other financing activities	(1,816)	(16,650)
Net cash provided by financing activities	69,991	136,918
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(13,077)	3,072
Net (decrease) increase in cash, cash equivalents and restricted cash	(232,051)	138,888
Cash, cash equivalents and restricted cash, beginning of the period	2,330,476	1,415,690

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Cash, cash equivalents and restricted cash, end of the period	\$2,098,425	\$1,554,578
Supplemental disclosure of noncash investing and financing activities:		
Property, plant and equipment acquisitions funded by liabilities	\$165,670	\$48,742
Sale of system previously accounted for as sale-leaseback financing	\$31,992	\$—
Acquisitions currently or previously funded by liabilities and contingent consideration	\$15,798	\$17,657
Accrued interest capitalized to long-term debt	\$1,679	\$15,181

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 in this Quarterly Report have been prepared in accordance with generally accepted accounting principles 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. Certain prior year balances have been reclassified to conform to the current year presentation.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and the accompanying notes. Despite our intention to establish accurate estimates and reasonable assumptions, actual results could differ materially from such estimates and assumptions. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or for any other period. The condensed consolidated balance sheet at December 31, 2017 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, 2017 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,” “us,” “our,” and “First Solar” refer to First Solar, Inc. and its consolidated subsidiaries, and the term “condensed consolidated financial statements” refers to the accompanying unaudited condensed consolidated financial statements contained in this Quarterly Report.

2. Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standard Board (“FASB”) issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, to allow entities to reclassify the income tax effects of tax reform legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) on items within accumulated other comprehensive income to retained earnings. ASU 2018-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact ASU 2018-02 will have on our consolidated financial statements and associated disclosures.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities, to simplify certain aspects of hedge accounting for both non-financial and financial risks and better align the recognition and measurement of hedge results with an entity’s risk management activities. ASU 2017-12 also amends certain presentation and disclosure requirements for hedging activities and changes how an entity assesses hedge effectiveness. ASU 2017-12 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact ASU 2017-12 will have on our consolidated financial statements and associated disclosures.

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In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 230) – Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 requires the recognition of income tax consequences of intra-entity transfers of assets, other than inventory, when the transfer occurs. Two common examples of assets included in the scope of ASU 2016-16 are intellectual property and long-lived assets. The adoption of ASU 2016-16 in the first quarter of 2018 did not have a significant impact on our consolidated financial statements and associated disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), to provide financial statement users with more useful information about expected credit losses. ASU 2016-13 also changes how entities measure 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, and early adoption is permitted for periods beginning after December 15, 2018. We are currently evaluating the impact ASU 2016-13 will have on our consolidated financial statements and associated disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either operating or financing, with such classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact ASU 2016-02 will have on our consolidated financial statements and associated disclosures.

3. Restructuring and Asset Impairments

Cadmium Telluride Module Manufacturing and Corporate Restructuring

In November 2016, our board of directors approved a set of initiatives intended to accelerate our transition to Series 6 module manufacturing and restructure our operations to reduce costs and better align the organization with our long-term strategic plans. Accordingly, we expect to upgrade and replace our legacy manufacturing fleet over the next several years with Series 6 manufacturing equipment, thereby enabling the production of solar modules with a larger form factor, better product attributes, and a lower cost structure.

As part of these initiatives, we incurred net charges of \$38.3 million during the six months ended June 30, 2017, which included (i) \$25.2 million of charges, primarily related to net losses on the disposition of previously impaired Series 4 and Series 5 manufacturing equipment, (ii) \$6.8 million of severance benefits to terminated employees, and (iii) \$6.4 million of net miscellaneous charges, primarily related to contract terminations, the write-off of operating supplies, and other Series 4 manufacturing exit costs. During the three months ended June 30, 2017, we incurred net charges of \$18.3 million, primarily as a result of net losses on the disposition of the aforementioned manufacturing equipment. Substantially all amounts associated with these restructuring and asset impairment charges related to our modules segment and were classified as “Restructuring and asset impairments” on our condensed consolidated statements of operations, and substantially all of the associated liabilities were paid or settled as of December 31, 2017.

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4. Cash, Cash Equivalents, and Marketable Securities

We consider highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents with the exception of time deposits, which are presented as marketable securities. Cash, cash equivalents, and marketable securities consisted of the following at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Cash and cash equivalents:		
Cash	\$1,804,118	\$2,142,949
Money market funds	220,373	125,585
Total cash and cash equivalents	2,024,491	2,268,534
Marketable securities:		
Foreign debt	299,961	238,858
Foreign government obligations	117,771	152,850
U.S. debt	38,562	73,671
Time deposits	654,127	255,000
Total marketable securities	1,110,421	720,379
Total cash, cash equivalents, and marketable securities	\$3,134,912	\$2,988,913

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within our condensed consolidated balance sheets as of June 30, 2018 and December 31, 2017 to the total of such amounts as presented in the condensed consolidated statement of cash flows (in thousands):

	Balance Sheet Line Item	June 30, 2018	December 31, 2017
Cash and cash equivalents	Cash and cash equivalents	\$2,024,491	\$2,268,534
Restricted cash – current (1)	Prepaid expenses and other current assets	6,554	11,120
Restricted cash – noncurrent (1)	Restricted cash and investments	67,380	50,822
Total cash, cash equivalents, and restricted cash		\$2,098,425	\$2,330,476

(1) See Note 5. “Restricted Cash and Investments” to our condensed consolidated financial statements for discussion of our “Restricted cash” arrangements.

During the three and six months ended June 30, 2018, we sold marketable securities for proceeds of \$10.8 million and realized gains of less than \$0.1 million on such sales. During the three and six months ended June 30, 2017, we sold marketable securities for proceeds of \$15.1 million and \$118.3 million, respectively, and realized gains of less than \$0.1 million on such sales. See Note 8. “Fair Value Measurements” to our condensed consolidated financial statements for information about the fair value of our marketable securities.

The following tables summarize the unrealized gains and losses related to our available-for-sale marketable securities, by major security type, as of June 30, 2018 and December 31, 2017 (in thousands):

	As of June 30, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Foreign debt	\$302,899	\$ 1	\$ 2,939	\$299,961
Foreign government obligations	118,992	—	1,221	117,771
U.S. debt	38,607	2	47	38,562
Time deposits	654,127	—	—	654,127

Total	\$1,114,625	\$	3	\$	4,207	\$1,110,421
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As of December 31, 2017				
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Foreign debt	\$240,643	\$ 3	\$ 1,788	\$238,858
Foreign government obligations	153,999	—	1,149	152,850
U.S. debt	73,746	—	75	