FIRST SOLAR, INC.
Form 10-Q
November 01, 2013

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 September 30, 2013

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 [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 (§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 [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 October 25, 2013, 99,440,100 shares of the registrant's common stock, $0.001 par value per share, were issued and outstanding.

FIRST SOLAR, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

		Page
Part I.	Financial Information (Unaudited)	
Item 1.	Condensed Consolidated Financial Statements:	
	Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and September 30, 2012	3
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2013 and September 30, 2012	4
	Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012	5
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and September 30, 2012	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	44
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	70
Item 4.	Controls and Procedures	70
Part II.	Other Information	72
Item 1.	Legal Proceedings	72
Item 1A.	Risk Factors	73
Item 4.	Mine Safety Disclosures	73
Item 5.	Other Information	73
Item 6.	Exhibits	73
Signatures		75

PART I. FINANCIAL INFORMATION

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		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net sales	$1,265,587	$ 839,147	$2,540,552	$ 2,293,534
Cost of sales	901,553	600,431	1,867,094	1,734,332
Gross profit	364,034	238,716	673,458	559,202
Operating expenses:				
Research and development	34,984	32,372	95,879	100,821
Selling, general and administrative	63,870	73,507	204,600	217,511
Production start-up	—	1,595	2,768	6,186
Restructuring and asset impairments	57,276	24,197	62,004	444,262
Total operating expenses	156,130	131,671	365,251	768,780
Operating income (loss)	207,904	107,045	308,207	(209,578)
Foreign currency (loss) gain	(705)	3	(155)	34
Interest income	4,197	3,405	12,549	9,695
Interest expense, net	(275)	(2,902)	(1,900)	(11,194)
Other income (expense), net	(2,433)	3,210	(2,762)	665
Income (loss) before income taxes	208,688	110,761	315,939	(210,378)
Income tax expense	13,650	22,844	28,161	40,138
Net income (loss)	$195,038	$ 87,917	$287,778	$ (250,516)
Net income (loss) per share:				
Basic	$1.98	$ 1.01	$3.14	$ (2.89)
Diluted	$1.94	$ 1.00	$3.08	$ (2.89)
Weighted-average number of shares used in per share calculations:				
Basic	98,720	86,992	91,751	86,785
Diluted	100,378	87,765	93,517	86,785

See accompanying notes to these condensed consolidated financial statements.

FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income (loss)	$ 195,038	$ 87,917	$ 287,778	$ (250,516)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	2,781	2,600	1,204	6,314
Unrealized (loss) gain on marketable securities and restricted investments	(6,314)	11,009	(33,684)	19,571
Unrealized loss on derivative instruments	(2,134)	(9,879)	(5,071)	(22,594)
Total other comprehensive income (loss), net of tax	(5,667)	3,730	(37,551)	3,291
Comprehensive income (loss)	$ 189,371	$ 91,647	$ 250,227	$ (247,225)

See accompanying notes to these condensed consolidated financial statements.

4

FIRST SOLAR, INC. AND SUBSIDIARIES

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

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,192,648	$ 901,294
Marketable securities	339,236	102,578
Accounts receivable trade, net	147,741	553,567
Accounts receivable, unbilled and retainage	436,773	400,987
Inventories	311,700	434,921
Balance of systems parts	139,937	98,903
Deferred project costs	752,241	21,390
Deferred tax assets, net	24,649	44,070
Assets held for sale	164,358	49,521
Note receivable affiliate	—	17,725
Prepaid expenses and other current assets	87,283	207,368
Total current assets	3,596,566	2,832,324
Property, plant and equipment, net	1,397,784	1,525,382
Project assets and deferred project costs	590,897	845,478
Deferred tax assets, net	324,275	317,473
Restricted cash and investments	278,753	301,400
Goodwill	84,985	65,444
Inventories	130,811	134,375
Retainage	277,960	270,364
Other assets	180,679	56,452
Total assets	$ 6,862,710	$ 6,348,692
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 184,837	$ 350,230
Income taxes payable	6,337	5,474
Accrued expenses	364,545	554,433
Current portion of long-term debt	60,329	62,349
Payments and billings for deferred project costs	888,124	94,535
Other current liabilities	132,014	34,353
Total current liabilities	1,636,186	1,101,374
Accrued solar module collection and recycling liability	214,262	212,835
Long-term debt	168,885	500,223
Payments and billings for deferred project costs	10,502	636,518
Other liabilities	413,500	292,216
Total liabilities	2,443,335	2,743,166
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value per share; 500,000,000 shares authorized; 99,438,507 and 87,145,323 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	99	87

Additional paid-in capital	2,629,137	2,065,527
Accumulated earnings	1,817,511	1,529,733
Accumulated other comprehensive (loss) income	(27,372)	10,179
Total stockholders' equity	4,419,375	3,605,526
Total liabilities and stockholders' equity	$ 6,862,710	$ 6,348,692

See accompanying notes to these condensed consolidated financial statements.

FIRST SOLAR, INC. AND SUBSIDIARIES

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

	Nine Months Ended	
	September 30, 2013	September 30, 2012
Cash flows from operating activities:		
Cash received from customers	$3,163,872	$ 2,300,563
Cash paid to suppliers and associates	(2,464,442)	(1,811,748)
Interest received	4,874	3,644
Interest paid	(8,845)	(16,982)
Income tax refunds	5,924	22,418
Excess tax benefit from share-based compensation arrangements	(33,958)	(61,571)
Other operating activities	(3,505)	(1,674)
Net cash provided by operating activities	663,920	434,650
Cash flows from investing activities:		
Purchases of property, plant and equipment	(226,360)	(339,213)
Purchases of marketable securities	(321,086)	(18,842)
Proceeds from maturities and sales of marketable securities	81,684	98,857
Investment in note receivable, affiliate	—	(21,659)
Payments received on note receivable, affiliate	17,108	4,369
Purchase of restricted investments	—	(80,667)
Change in restricted cash	5,136	20,264
Acquisitions, net of cash acquired	(30,745)	(2,437)
Purchase of equity and cost method investments	(17,871)	(5,000)
Other investing activities	(1,610)	—
Net cash used in investing activities	(493,744)	(344,328)
Cash flows from financing activities:		
Repayments of long-term debt	(664,443)	(953,212)
Proceeds from borrowings under long-term debt, net of discount and issuance costs	333,012	815,000
Excess tax benefit from share-based compensation arrangements	33,958	61,571
Repayment of economic development funding	(8,315)	(6,820)
Proceeds from equity offering, net of issuance costs	428,190	—
Contingent consideration payments and other financing activities	(3,521)	(766)
Net cash provided by (used in) financing activities	118,881	(84,227)
Effect of exchange rate changes on cash and cash equivalents	2,297	2,985
Net increase in cash and cash equivalents	291,354	9,080
Cash and cash equivalents, beginning of the period	901,294	605,619
Cash and cash equivalents, end of the period	$1,192,648	$ 614,699
Supplemental disclosure of noncash investing and financing activities:		
Property, plant and equipment acquisitions funded by liabilities	$62,943	$ 56,590
Acquisitions funded by liabilities and contingent consideration	$109,106	$ —
Settlement of long-term debt	$—	$ 4,802
Shares issued for acquisition	$83,755	$ —

See accompanying notes to these condensed consolidated financial statements.

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 management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement have been included. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013, or for any other period. The condensed consolidated balance sheet at December 31, 2012 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 31, 2012 included in our Annual Report on Form 10-K filed with the SEC.

Certain prior year balances have been reclassified to conform to the current year's presentation. Such reclassifications did not affect total cash flows, total net sales, operating income, net income, total assets, total liabilities or stockholders' equity.

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

During the nine months ended September 30, 2012, we corrected three errors that aggregated to a gross overstatement of net loss by $7.8 million in both actual and absolute terms for the year ended December 31, 2011, with such correction having the effect of reducing net loss by $7.8 million in the aggregate for the nine months ended September 30, 2012.

The first error was an overstatement of $4.9 million in net loss related to "cut-off" of our inventories and balance of systems parts that had been installed in our systems business projects and accounted for under the percentage-of-completion method, but remained in inventories and balance of systems parts as of December 31, 2011. Accordingly, the value of the installed inventories and balance of system parts was not included in the incurred cost portion of our percentage-of-completion calculations. The overstatement in net loss was comprised of (a) an understatement of $13.6 million in net sales, (b) an understatement of $8.4 million in cost of sales, (c) an overstatement of $8.4 million in inventories and balance of systems parts and (d) an overstatement of $0.3 million due to the associated impact to our income tax expense. The second error was an overstatement of $2.5 million in net loss related to an understatement in our income tax benefit for the year ended December 31, 2011, related to a benefit associated with Subpart F foreign tax credits. The remaining error was an overstatement of $0.4 million in operating expenses due to a miscellaneous item that was considered in our overall evaluation of materiality, but is considered to be individually insignificant.

In evaluating whether these errors, individually and in the aggregate, and the corrections of the errors had a material impact on the quarterly periods such errors and corrections related to, we evaluated both the quantitative and qualitative impact to our condensed consolidated financial statements for such periods. We considered a number of qualitative factors, including, among others, that the errors and the correction of 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 our industry during 2011 and 2012.

Based upon our quantitative and qualitative evaluation, management has determined that the errors and the correction of such errors did not have a material impact on the periods to which they related.

2. Summary of Significant Accounting Policies

Use of Estimates. 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. Significant estimates in these condensed consolidated financial statements include percentage-of-completion revenue recognition, inventory valuation, recoverability of project assets, estimates of future cash flows from and the economic useful lives of long-lived assets, certain accrued liabilities, income taxes and tax valuation allowances, reportable segment allocations, product warranties and manufacturing excursions, accrued collection and recycling expense, applying the acquisition method of accounting for business combinations and goodwill. Despite our intention to establish accurate estimates and reasonable assumptions, actual results could differ materially from these estimates and assumptions.

Revenue Recognition — Systems Business. We recognize revenue for arrangements entered into by our systems business generally using two revenue recognition models, following the guidance in Accounting Standards Codification ("ASC") 605, Accounting for Long-term Construction Contracts or, for arrangements which include land or land rights, ASC 360, Accounting for Sales of Real Estate.

For systems business sales arrangements that do not include land or land rights and thus are accounted for under ASC 605, we use the percentage-of-completion method, as described further below, using actual costs incurred over total estimated costs to develop and construct a project (including module costs) as our standard accounting policy, unless we cannot make reasonably dependable estimates of the costs to complete the contract, in which case we would use the completed contract method.

For systems business sales arrangements that are accounted for under ASC 360, where we convey control of land or land rights, we record the sale as revenue using one of the following revenue recognition methods, based upon evaluation of the substance and form of the terms and conditions of such real estate sales arrangements:

(i) We apply the percentage-of-completion method, as further described below, to certain real estate sales arrangements covered under ASC 360, when a sale has been consummated, we have transferred the usual risks and rewards of ownership to the buyer, the initial and continuing investment criteria have been met, we have the ability to estimate our costs and progress toward completion, and all other revenue recognition criteria have been met. The initial and continuing investment requirements, which demonstrate a buyer's commitment to honor their obligations for the sales arrangement, can typically be met through the receipt of cash or an irrevocable letter of credit from a highly credit worthy lending institution. When evaluating whether the usual risks and rewards of ownership have transferred to the buyer, we consider whether we have or may be contingently required to have any prohibited forms of continuing involvement with the project. Prohibited forms of continuing involvement in a real estate sales arrangement may include us retaining risks or rewards associated with the project that are not customary with the range of risks or rewards that an engineering, procurement and construction ("EPC") contractor may assume.

(ii) Depending on whether the initial and continuing investment requirements have been met, and whether collectability from the buyer is reasonably assured, we may align our revenue recognition and release of project assets or deferred project costs to cost of sales with the receipt of payment from the buyer if the sale has been consummated and we have transferred the usual risks and rewards of ownership to the buyer.

(iii) We may also record revenue for certain sales arrangements after construction of discrete portions of a project or after the entire project is substantially complete, we have transferred the usual risks and rewards of ownership to the buyer, and we have received substantially all payments due from the buyer or the initial and continuing investment criteria have been met.

For any systems business sales arrangements containing multiple deliverables (including our solar modules) not required to be accounted for under ASC 360 (real estate) or ASC 605 (long-term construction contracts), we analyze each activity within the sales arrangement to ensure that we adhere to the separation guidelines of ASC 605 for multiple-element arrangements. We allocate revenue for any transactions involving multiple elements to each unit of accounting based on its relative selling price, and recognize revenue for each unit of accounting when all revenue recognition criteria for a unit of accounting have been met.

Revenue Recognition - Percentage-of-Completion. In applying the percentage-of-completion method, we use the actual costs incurred relative to estimated costs to complete (including module costs) in order to estimate the progress towards completion to determine the amount of revenue and profit to recognize. Incurred costs include all installed direct materials, installed solar modules, labor, subcontractor costs, and those indirect costs related to contract

performance, such as indirect labor, supplies, and tools. We recognize direct material and solar module costs as incurred costs when the direct materials and solar modules have been installed in the project. When contracts specify that title to direct materials and solar modules transfers to the customer before installation has been performed, we will not recognize revenue or associated costs until those materials are installed and have met all other revenue recognition requirements. We consider direct materials and solar modules to be installed when they are permanently placed or affixed to a solar power system as required by engineering designs. Solar modules manufactured by us that will be used in our solar power systems, which we still hold title to, remain within inventory until such modules are installed in a solar power system.

The percentage-of-completion method of revenue recognition requires us to make estimates of contract revenues and costs to complete our projects. In making such estimates, management judgments are required to evaluate significant assumptions including the cost of materials and labor, expected labor productivity, the impact of potential variances in schedule completion, the amount of net contract revenues and the impact of any penalties, claims, change orders, or performance incentives.

If estimated total costs on any contract are greater than the contract revenues, we recognize the entire estimated loss in the period the loss becomes known. The cumulative effect of the revisions to estimates related to contract revenues and costs to complete contracts, including penalties, incentive awards, claims, change orders, anticipated losses and others are recorded in the period in which the revisions to estimates are identified and can be reasonably estimated. The effect of the changes on future periods are recognized as if the revised estimates had been used since revenue was initially recognized under the contract. Such revisions could occur in any reporting period and the effects may be material depending on the size of the contracts or changes in estimate.

Revenue Recognition - Components Business. Our components business sells solar modules directly to third party solar power system integrators and operators. We recognize revenue for module sales when persuasive evidence of an arrangement exists, delivery of the module has occurred and title and risk of loss have passed to the customer, the sales price is fixed or determinable, and the collectability of the resulting receivable is reasonably assured. Under this policy, we record a trade receivable for the selling price of our module and reduce inventory for the cost of goods sold when delivery occurs in accordance with the terms of the sales contracts. Our customers typically do not have extended payment terms or rights of return for our products. We account for rebates or other customer incentives as a reduction to the selling price of our solar modules at the time of sale; and therefore, as a reduction to revenue.

Ventures and Variable Interest Entities. In the normal course of business we establish wholly owned project companies which may be considered variable interest entities. We consolidate wholly owned variable interest entities, even if there are other variable interests in such entities, as we are considered the primary beneficiary of such entities. Additionally, we have and may in the future form joint venture type arrangements (“ventures”), including partnerships and partially owned limited liability companies or similar legal structures, with one or more third parties primarily to develop and build specific or a pipeline of solar power projects. These types of ventures are core to our business and long-term strategy related to providing solar photovoltaic (“PV”) generation solutions using our modules to sustainable geographic markets. In accordance with ASC 810, Consolidations, we analyze all of our ventures and classify them into two groups: (i) ventures that must be consolidated because they are either not variable interest entities (“VIEs”) and we hold the majority voting interest, or because they are VIEs and we are the primary beneficiary; and (ii) ventures that do not need to be consolidated and are accounted for under either the equity or cost methods of accounting because they are either not VIEs and we hold a minority voting interest, or because they are VIEs and we are not the primary beneficiary.

Ventures are considered VIEs if (i) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support; (ii) as a group, the holders of the equity investment at risk lack the ability to make certain decisions, the obligation to absorb expected losses or the right to receive expected residual returns; or (iii) an equity investor has voting rights that are disproportionate to its economic interest and substantially all of the entity’s activities are on behalf of the investor. Our venture agreements typically require some form of project development capital or project equity ranging from amounts necessary to obtain a power purchase agreements (“PPA”) (or similar power off-take agreement) to a pro-rata portion of the total equity required to develop and complete construction of a project, depending upon the opportunity and the market our ventures are in. Our limited number of ventures as of September 30, 2013 and future ventures of a similar nature are typically VIEs because the total equity investment at risk is not sufficient to permit the ventures to finance their activities without additional financial support.

We are considered the primary beneficiary of and are required to consolidate a VIE if we have the power to direct the activities that most significantly impact that VIE’s economic performance, and the obligation to absorb losses or the right to receive benefits of that VIE that could potentially be significant to the VIE. If we determine that we do not have the power to direct the activities that most significantly impact the venture, then we are not primary beneficiary of the VIE.

We account for our unconsolidated ventures using either the equity or cost methods of accounting depending upon whether we have the ability to exercise significant influence over a venture. We consider the participating and protective rights we have as well as the legal form of the venture when evaluating whether we have the ability to

exercise significant influence, which requires us to apply the equity method of accounting. Income from ventures for the three and nine months ended September 30, 2013 was immaterial to the condensed consolidated statements of operations.
Refer to Note 2. “Summary of Significant Accounting Policies,” to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012 for a more complete summary of our significant accounting policies.

3. Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities, updated by ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which requires

9

companies to disclose information about financial instruments that have been offset and related arrangements to enable users of their financial statements to understand the effect of those arrangements on their financial position. Companies will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. ASU 2011-11, as amended by ASU 2013-01, is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of ASU 2011-11, as amended by ASU 2013-01, in the first quarter of 2013, did not have an impact on our consolidated financial position, results of operations, or cash flows.

In July 2012, the FASB issued ASU 2012-02, Intangibles - Goodwill and Other (Topic 350), Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 gives companies an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate it is more-likely-than-not that an indefinite-lived intangible asset (excluding goodwill) is impaired. If based on its qualitative assessment, a company concludes that it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if a company concludes otherwise, quantitative impairment testing is not required. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of ASU 2012-02, in the first quarter of 2013, did not have an impact on our consolidated financial position, results of operations, or cash flows.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 supersedes and replaces the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 and 2011-12 for all public and private organizations. The amendment requires that an entity must report the effect of significant reclassifications out of accumulated other comprehensive income by the respective line items in net income if the amount being reclassified is required under U.S. GAAP. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The adoption of ASU 2013-02, in the first quarter of 2013, did not have an impact on our consolidated financial position, results of operations or cash flows.

In March 2013, the FASB issued ASU 2013-05, Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, which applies to the release of cumulative translation adjustments into net income when a parent (i) sells a part or all of its investment in a foreign entity (ii) no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity, (iii) sells part of an equity method investment of a foreign entity, or (iv) obtains control of a foreign acquiree in which such parent held an equity interest immediately before the acquisition date through a step acquisition. We are currently analyzing the impact of ASU 2013-15, which will be effective in the first quarter of 2014, on our consolidated financial position, results of operations, or cash flows.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging (Topic 815), Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. ASU 2013-10 permits, in addition to U.S. treasury interest rates and the London Interbank Offered Rate (“LIBOR”), the Fed Funds Effective Swap Rate (“OIS”) to be used as a U.S. benchmark interest rate for hedge accounting purposes. ASU 2013-10 also removes the restriction on using different benchmark rates for similar hedges. ASU 2013-10 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 in the third quarter of 2013 did not have an impact on our consolidated financial position, results of operations, or cash flows.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists. ASU No. 2013-11 provides that an entity's unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with one exception. That exception states that, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We are currently analyzing the impact of ASU 2013-11, which will be effective in the first quarter of 2014, on our consolidated financial position, results of operations, or cash flows.

4. Restructuring and Asset Impairments

Restructuring

The activity related to our restructuring charges for material restructuring initiatives through September 30, 2013 are as follows:

February 2012 Manufacturing Restructuring

In February 2012, executive management completed an evaluation of and approved a set of manufacturing capacity and other initiatives primarily intended to adjust our previously planned manufacturing capacity expansions and global manufacturing footprint. The primary goal of these initiatives was to better align production capacity and geographic location of such capacity with expected geographic market requirements and demand. As of September 30, 2013, $5.1 million remains accrued for asset impairment related charges from the February 2012 manufacturing restructuring and is included within other liabilities. We do not expect to incur any additional expense for the February 2012 manufacturing restructuring initiatives.

April 2012 European Restructuring

In April 2012, executive management approved a set of restructuring initiatives intended to align the organization with our Long Term Strategic Plan including expected sustainable market opportunities and to reduce costs. As part of these initiatives, we substantially reduced our European operations including the closure of our manufacturing operations in Frankfurt (Oder), Germany at the end of 2012. Due to the lack of policy support for utility-scale solar projects in Europe at that time, we did not believe there was a business case for continuing manufacturing operations in Germany or to proceed with the previously announced 2-line plant in France. Additionally, we substantially reduced the size of our operations in Mainz, Germany and elsewhere in Europe. After the closure of our Frankfurt (Oder) manufacturing operations, which was comprised of eight production lines, at the end of 2012, First Solar's installed manufacturing capacity consists of 24 production lines in Kulim, Malaysia and four production lines in Perrysburg, Ohio.

In connection with these restructuring initiatives, we incurred total charges to operating expense of $5.4 million during the nine months ended September 30, 2013. These total charges consisted of (i) $1.9 million in asset impairments and asset impairment related charges, primarily related to the closure of the Frankfurt (Oder) plants; and (ii) $3.5 million in severance and termination related costs.

The following table summarizes the April 2012 European restructuring amounts remaining as of December 31, 2012, amounts recorded to restructuring expense during the three and nine months ended September 30, 2013, and the remaining balance at September 30, 2013 (in thousands):

April 2012 European Restructuring	Asset Impairments and Related Costs	Severance and Termination Related Costs	Grant Repayments	Total
Ending Balance at December 31, 2012	$16,625	$25,717	$8,400	$50,742
Charges to Income	—	2,347	—	2,347
Change in Estimates	—	—	—	—
Cash Payments	(7,193)	(6,720)	(8,315)	(22,228)
Non-Cash Amounts Including Foreign Exchange Impact	(304)	(718)	(85)	(1,107)
Ending Balance at March 31, 2013	9,128	20,626	—	29,754
Charges to Income	2,170	1,185	—	3,355
Change in Estimates	(945)	(29)	—	(974)
Cash Payments	(6,597)	(13,563)	—	(20,160)

Non-Cash Amounts Including Foreign Exchange Impact	(771)	316	—	(455)
Ending Balance at June 30, 2013	2,985	8,535	—	11,520
Charges to Income	1,981	28	—	2,009
Change in Estimates	(1,320)	(23)	—	(1,343)
Cash Payments	(866)	(4,820)	—	(5,686)
Non-Cash Amounts Including Foreign Exchange Impact	(1,882)	281	—	(1,601)
Ending Balance at September 30, 2013	$898	$4,001	$—	$4,899

11

Expenses recognized for restructuring activities are presented in “Restructuring and asset impairments” on the condensed consolidated statements of operations. Substantially all expenses related to the April 2012 European restructuring were related to our components segment.

Asset Impairments

On October 3, 2013, we entered into an agreement to sell our facility in Mesa, Arizona. The facility consists of land, a building, and certain fixtures and improvements. The facility currently houses our Operations & Maintenance (“O&M”) capabilities as well as certain equipment and inventory. The facility was originally designed to house a cadmium telluride (“CdTe”) PV module manufacturing factory; however, we never commissioned manufacturing at the facility. As a result of the sales agreement, we have classified the Mesa facility as “Assets held for sale” in the condensed consolidated balance sheet as of September 30, 2013 and recognized a $56.6 million asset impairment charge during the third quarter of 2013, which lowered the book value of the facility to fair value, less costs to sell. We expect the cash proceeds, net of costs to sell to be approximately $115 million.

5. Business Acquisitions

General Electric

In August 2013, we acquired all of the cadmium telluride PV specific intellectual property assets (“GE Intellectual Property”) of General Electric Company (“GE”) pursuant to a Master Transaction Agreement and an Intellectual Property Purchase Agreement (the “Agreements”), by and between First Solar and GE and certain of their subsidiaries. Pursuant to the Agreements, First Solar received the GE Intellectual Property and GE received 1,750,000 shares of First Solar common stock, which had a market value of $83.8 million on August 5, 2013. The GE Intellectual Property included trade secrets, technology, business and technical information and know-how, databases, and other confidential and proprietary information as well as solar manufacturing processes and protocols. The combination of the GE Intellectual Property and our existing manufacturing capacity is expected to further advance CdTe technology and to achieve a more rapid increase in module efficiency.

In connection with applying the acquisition method of accounting, $73.7 million of the purchase price consideration was assigned to an in-process research and development (“IPR&D”) intangible asset at fair value that will be amortized over its useful life upon successful completion of the project or expensed earlier if impaired and $10.1 million was assigned to goodwill. The pro forma effect of this all-stock acquisition was not material to our historical condensed consolidated balance sheets, results of operations or cash flows. Substantially all of the goodwill and intangible assets recorded for this acquisition are deductible for tax purposes.

TetraSun

In April 2013, we acquired 100%, of the stock not previously owned by us, of TetraSun, Inc. (“TetraSun”), a development stage company that is in advanced stages of developing high efficiency crystalline silicon technology that is expected to provide improvements in performance relative to conventional crystalline silicon solar modules.

The all-cash acquisition was not material to our historical condensed consolidated balance sheets, results of operations or cash flows. We have included the financial results of TetraSun in our condensed consolidated financial statements from the date of acquisition.

In connection with applying the acquisition method of accounting, $39.1 million of the purchase price consideration was assigned to an IPR&D intangible asset that will be amortized over its useful life upon successful completion of

the project or expensed earlier if impaired and $6.1 million was assigned to goodwill.

Solar Chile

In January 2013, we acquired 100% of the ownership interest of Solar Chile S.A. (“Solar Chile”), a Chilean-based solar project development company with substantially all of its assets being a portfolio of early to mid-stage utility-scale PV power projects in northern Chile, in an all-cash transaction which was not material to our historical condensed consolidated balance sheets, results of operations or cash flows. We have included the financial results of Solar Chile in our condensed consolidated financial statements from the date of acquisition.

6. Cash, Cash Equivalents, and Marketable Securities

Cash, cash equivalents, and marketable securities consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Cash:		
Cash	$ 1,128,573	$ 889,065
Cash equivalents:		
Commercial paper	—	1,500
Money market funds	64,075	10,729
Total cash and cash equivalents	1,192,648	901,294
Marketable securities:		
Commercial paper	1,699	1,698
Corporate debt securities	137,033	23,384
Federal agency debt	22,119	29,936
Foreign agency debt	110,261	7,233
Foreign government obligations	25,156	4,142
Supranational debt	39,466	34,181
U.S. government obligations	3,502	2,004
Total marketable securities	339,236	102,578
Total cash, cash equivalents, and marketable securities	$ 1,531,884	$ 1,003,872

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 other comprehensive income (loss). We report realized gains and losses on the sale or maturity of our marketable securities in other income (expense), net computed using the specific identification method. We may sell these securities prior to their stated maturities after consideration of our liquidity requirements. We view securities with maturities beyond 12 months as available to support current operations, and accordingly we classify all such securities as current assets under the caption marketable securities in the accompanying condensed consolidated balance sheets. During the three and nine months ended September 30, 2013 and 2012, we realized an immaterial amount of gains and losses on the sale or maturities of our marketable securities. See Note 12. “Fair Value Measurements,” to our condensed consolidated financial statements for information about the fair value of our marketable securities.

All of our available-for-sale marketable securities are subject to a periodic impairment review. We consider a marketable security to be impaired when its fair value is less than its cost, in which case we would further review the marketable security to determine whether it is other-than-temporarily impaired. When we evaluate a marketable security for other-than-temporary impairment, we review factors such as the length of time and extent to which its fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, our intent to sell, and whether it is more-likely-than-not that we will be required to sell the marketable security before we have recovered its cost basis. If a marketable security were other-than-temporarily impaired, we would write it down through other income (expense), net to its impaired value and establish that as a new cost basis. We did not identify any of our marketable securities as other-than-temporarily impaired at September 30, 2013 and December 31, 2012.

The following tables summarize the unrealized gains and losses related to our marketable securities, by major security type, as of September 30, 2013 and December 31, 2012 (in thousands):

Security Type	As of September 30, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$1,699	$—	$—	$1,699
Corporate debt securities	137,181	13	161	137,033
Federal agency debt	22,108	16	5	22,119
Foreign agency debt	110,302	18	59	110,261
Foreign government obligations	25,148	8	—	25,156
Supranational debt	39,481	28	43	39,466
U.S. government obligations	3,498	4	—	3,502
Total	$339,417	$87	$268	$339,236

Security Type	As of December 31, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$1,697	$1	$—	$1,698
Corporate debt securities	23,358	26	—	23,384
Federal agency debt	29,888	49	1	29,936
Foreign agency debt	7,266	—	33	7,233
Foreign government obligations	4,138	4	—	4,142
Supranational debt	34,110	71	—	34,181
U.S. government obligations	2,000	4	—	2,004
Total	$102,457	$155	$34	$102,578

Contractual maturities of our marketable securities as of September 30, 2013 and December 31, 2012 were as follows (in thousands):

Maturity	As of September 30, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
One year or less	$83,696	$37	$33	$83,700
One year to two years	246,998	47	232	246,813
Two years to three years	8,723	3	3	8,723
Total	$339,417	$87	$268	$339,236

Maturity	As of December 31, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
One year or less	$71,225	$67	$32	$71,260
One year to two years	30,707	88	1	30,794
Two years to three years	525	—	1	524
Total	$102,457	$155	$34	$102,578

The net unrealized loss of $0.2 million and net unrealized gain of $0.1 million as of September 30, 2013 and December 31, 2012, respectively, on our marketable securities were primarily the result of changes in interest rates. Our investment policy requires marketable securities to be highly rated and limits the security types, issuer

concentration, and duration to maturity of our marketable securities portfolio.

The following table shows gross unrealized losses and estimated fair values for those marketable securities that were in an unrealized loss position as of September 30, 2013 and December 31, 2012, aggregated by major security type and the length of time the marketable securities have been in a continuous loss position (in thousands):

	As of September 30, 2013					
	In Loss Position for Less Than 12 Months		In Loss Position for 12 Months or Greater		Total	
Security Type	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Corporate debt securities	$105,519	$161	$—	$—	$105,519	$161
Federal agency debt	6,006	5	—	—	6,006	5
Foreign agency debt	87,914	59	—	—	87,914	59
Foreign government obligations	—	—	—	—	—	—
Supranational debt	20,687	43	—	—	20,687	43
U.S. government obligations	—	—	—	—	—	—
Total	$220,126	$268	$—	$—	$220,126	$268

	As of December 31, 2012					
	In Loss Position for Less Than 12 Months		In Loss Position for 12 Months or Greater		Total	
Security Type	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Federal agency debt	$524	$1	$—	$—	$524	$1
Foreign agency debt	—	—	5,970	33	5,970	33
Total	$524	$1	$5,970	$33	$6,494	$34

7. Restricted Cash and Investments

Restricted cash and investments consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Restricted cash (1)	$ 164	$ 184
Restricted investments	278,589	301,216
Restricted cash and investments	$ 278,753	$ 301,400

(1) There was $5.1 million of restricted cash included within prepaid expenses and other current assets at December 31, 2012 primarily related to required cash collateral for certain letters of credit provided for projects under development in foreign jurisdictions.

At September 30, 2013 and December 31, 2012, our restricted investments consisted of long-term marketable securities that we hold through a custodial account to fund the estimated future costs of collecting and recycling modules covered under our solar module collection and recycling program. We have classified our restricted investments 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 (loss). We report realized gains and losses on the maturity or sale of our restricted investments in other income (expense), net computed using the specific identification method. Restricted investments are classified as noncurrent as the underlying accrued solar module collection and recycling liability is also noncurrent in nature.

We fund the estimated collection and recycling obligations incremental to amounts already pre-funded in prior years for the cumulative module sales covered by our solar module collection and recycling program within 90 days of the

end of each year, assuming for this purpose a service life of 25 years for our solar modules. To ensure that our collection and recycling program for covered modules is available at all times and the pre-funded amounts are accessible regardless of our financial status in the future (even in the case of our own insolvency), we have established a trust structure (the “Trust”) under which estimated required funds are put into custodial accounts with an established and reputable bank as the investment advisor in the name of the Trust, for which First Solar, Inc., First Solar Malaysia Sdn. Bhd. (“FS Malaysia”), and First Solar Manufacturing GmbH are grantors. Only the trustee can distribute funds from the custodial accounts and these funds cannot be accessed for any purpose other than to cover qualified costs of module collection and recycling, either by us or a third party executing the required collection and recycling services. Investments in this custodial account must meet the criteria of the highest quality investments, such as highly rated government or agency bonds. We closely monitor our exposure to European markets and maintain holdings primarily consisting

of German and French sovereign debt securities which are not currently at risk of default. Under the Trust agreements, each year we determine the annual pre-funding requirement (if any) based upon the difference between the current estimated future costs of collecting and recycling all solar modules covered under our program combined with the rate of return restricted investments will earn prior to being utilized to cover qualified collection and recycling costs and amounts already pre-funded in prior years. Based primarily upon reductions in the estimated future costs of collecting and recycling solar modules covered under our program combined with the cumulative amounts pre-funded since the inception of our program, we have determined that no incremental funding was required in the first quarter of 2013 for all historical covered module sales through December 31, 2012.

The following table summarizes unrealized gains and losses related to our restricted investments by major security type as of September 30, 2013 and December 31, 2012 (in thousands):

	As of September 30, 2013			
Security Type	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Foreign government obligations	$199,605	$24,331	$476	$223,460
U.S. government obligations	55,270	2,496	2,637	55,129
Total	$254,875	$26,827	$3,113	$278,589

	As of December 31, 2012			
Security Type	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Foreign government obligations	$188,350	$47,921	$—	$236,271
U.S. government obligations	53,368	11,577	—	64,945
Total	$241,718	$59,498	$—	$301,216

As of September 30, 2013 and December 31, 2012, the contractual maturities of these restricted investments were between 14 years and 23 years and were between 15 years and 24 years, respectively. As of September 30, 2013, the gross unrealized loss of $3.1 million had been in a continuous loss position for less than 12 months.

8. Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per share is computed giving effect to all potential dilutive common stock, including employee stock options, restricted and performance stock units, and stock purchase plan shares, unless there is a net loss for the period. In computing diluted earnings per share, we utilize the treasury stock method.

The calculation of basic and diluted net income (loss) per share for the three and nine months ended September 30, 2013 and 2012 was as follows (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Basic net income (loss) per share				
Numerator:				
Net income (loss)	$195,038	$ 87,917	$287,778	$ (250,516)
Denominator:				
Weighted-average common stock outstanding	98,720	86,992	91,751	86,785

Diluted net income (loss) per share				
Denominator:				
Weighted-average common stock outstanding	98,720	86,992	91,751	86,785
Effect of stock options, restricted and performance stock units, and stock purchase plan shares	1,658	773	1,766	—
Weighted-average shares used in computing diluted net income (loss) per share	100,378	87,765	93,517	86,785

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Per share information — basic:				
Net income (loss) per share	$ 1.98	$ 1.01	$ 3.14	$ (2.89)
Per share information — diluted:				
Net income (loss) per share	$ 1.94	$ 1.00	$ 3.08	$ (2.89)

The following number of outstanding employee stock options, restricted and performance stock units and stock purchase plan shares were excluded from the computation of diluted net income (loss) per share for the three and nine months ended September 30, 2013 and 2012 as they would have had an anti-dilutive effect (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Anti-dilutive shares	80	1,071	98	1,907

9. Consolidated Balance Sheet Details

Accounts receivable trade, net

Accounts receivable trade, net consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Accounts receivable trade, gross	$ 157,650	$ 568,070
Allowance for doubtful accounts	(9,909)	(14,503)
Accounts receivable trade, net	$ 147,741	$ 553,567

At September 30, 2013 and December 31, 2012, $21.1 million and $104.5 million, respectively, of our accounts receivable trade, net were collateralized by letters of credit, bank guarantees or other forms of financial security issued by credit worthy financial institutions.

Accounts receivable, unbilled and retainage

Accounts receivable, unbilled and retainage consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Accounts receivable, unbilled	$ 175,581	$ 342,587
Retainage	261,192	58,400
Accounts receivable, unbilled and retainage	$ 436,773	$ 400,987

Accounts receivable, unbilled represents revenue that has been recognized in advance of billing the customer. This is common for long-term construction contracts. For example, we recognize revenue from contracts for the construction and sale of solar power systems which include the sale of project assets over the construction period using applicable accounting methods. One applicable accounting method is the percentage-of-completion method under which sales

and gross profit are recognized as construction work is performed based on the relationship between actual costs incurred compared to the total estimated costs for constructing the project. Under this accounting method, revenue can be recognized in advance of billing the customer, resulting in an amount recorded to accounts receivable, unbilled and retainage. Once we meet the billing criteria under a construction contract, we bill our customers accordingly and reclassify the accounts receivable, unbilled and retainage to accounts receivable trade, net. Billing requirements vary by contract, but are generally structured around completion of certain construction milestones.

Also included within accounts receivable, unbilled and retainage is the current portion of retainage. Retainage refers to the portion of the contract price earned by us for work performed, but held for payment by our customer as a form of security until we reach certain construction milestones. Retainage included within accounts receivable, unbilled and retainage is expected to be billed and collected within the next 12 months.

Inventories

Inventories consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Raw materials	$ 166,440	$ 184,006
Work in process	10,837	14,868
Finished goods (solar modules)	265,234	370,422
Inventories	$ 442,511	$ 569,296
Inventories — current	$ 311,700	$ 434,921
Inventories — noncurrent (1)	$ 130,811	$ 134,375

(1) We purchase a critical raw material that is used in our core production process in quantities that exceed anticipated consumption within our operating cycle (which is 12 months). We classify the raw materials that we do not expect to be consumed within our operating cycle as noncurrent.

We regularly review the cost of inventories, including noncurrent inventories, against their estimated market value and record a lower of cost or market write-down if any inventories have a cost in excess of their estimated market value as defined by ASC 330, Inventories. We also regularly evaluate the quantities and values of our inventories, including noncurrent inventories, in light of current market conditions and market trends among other factors and record write-downs for any quantities in excess of demand and for any new obsolescence.

Balance of systems parts

Balance of systems parts totaling $139.9 million and $98.9 million as of September 30, 2013 and December 31, 2012, respectively, represent mounting, electrical and other construction parts purchased for solar power plants to be constructed or currently under construction, which we hold title to and are not yet installed in a solar power plant. These parts include posts, tilt brackets, tables, harnesses, combiner boxes, inverters, cables, tracker equipment and other parts we purchase or assemble for the solar power plants we construct. Balance of systems parts does not include any solar modules that we manufacture. We carry these parts at the lower of cost or market, with market being based primarily on recoverability through installation in a solar power system.

Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Prepaid expenses	$ 27,794	$ 39,582
Derivative instruments	2,998	7,230
Deferred costs of goods sold	1,544	96,337
Other current assets	54,947	64,219
Prepaid expenses and other current assets	$ 87,283	$ 207,368

Property, plant and equipment, net

Property, plant and equipment, net consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Buildings and improvements	$ 341,976	$ 446,133
Machinery and equipment	1,369,539	1,415,632
Office equipment and furniture	123,203	117,228
Leasehold improvements	47,370	49,367
Depreciable property, plant and equipment, gross	1,882,088	2,028,360
Accumulated depreciation	(880,554)	(803,501)
Depreciable property, plant and equipment, net	1,001,534	1,224,859
Land	10,656	22,256
Construction in progress	179,106	51,133
Stored assets (1)	206,488	227,134
Property, plant and equipment, net	$ 1,397,784	$ 1,525,382

(1) Consists of machinery and equipment ("stored assets") that were originally purchased for installation in our previously planned manufacturing capacity expansions. We intend to install and place the stored assets into service when such assets are required or beneficial to our existing installed manufacturing capacity or when market demand supports additional or market specific manufacturing capacity. As the stored assets are neither in the condition or location to produce modules as intended, we will not begin depreciation until such assets are placed into service. The stored assets are evaluated for impairment under a held and used impairment model whenever events or changes in business circumstances arise, including consideration of technological obsolescence, that may indicate that the carrying amount of the long-lived assets may not be recoverable. We ceased the capitalization of interest on such stored assets once they were physically received from the related machinery and equipment suppliers.

Depreciation of property, plant and equipment was $60.0 million and $176.0 million for the three and nine months ended September 30, 2013, respectively, and was $65.6 million and $202.3 million for the three and nine months ended September 30, 2012, respectively.

From time to time, we have received grants for the construction or expansion of our manufacturing facilities. We account for any such grants as a reduction to the carrying value of the property, plant and equipment they fund. During the first quarter of 2013, we repaid the remaining €6.3 million of grants received in 2011, including outstanding interest due, as a result of the closure of our Frankfurt (Oder) manufacturing facility.

See Note 4. "Restructuring and Asset Impairments," for more information on the long-lived asset impairments and grant repayments related to our April 2012 European restructuring.

Capitalized interest

We capitalized interest costs incurred into property, plant and equipment or project assets as follows during the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Interest cost incurred	$ (2,907)	$ (4,254)	$ (9,349)	$ (20,304)
Interest cost capitalized — property, plant and equipment	836	715	1,882	3,538
Interest cost capitalized — project assets	1,796	637	5,567	5,572
Interest expense, net	$ (275)	$ (2,902)	$ (1,900)	$ (11,194)

Project assets and deferred project costs

Project assets consist primarily of costs relating to solar power projects in various stages of development and construction that we capitalize prior to entering into a definitive sales agreement for the solar power project including projects that have begun commercial operation under the project PPAs. These costs include costs for land and costs for developing and constructing a PV solar power system. Development costs can include legal, consulting, permitting, interconnection, and other similar costs. Once

we enter into a definitive sales agreement, we reclassify project assets to deferred project costs on our condensed consolidated balance sheet until the sale is completed and we have met all of the criteria to recognize the sale as revenue, which is typically subject to real estate revenue recognition requirements. We expense project assets to cost of sales after each respective project asset is sold to a customer and all revenue recognition criteria have been met (matching the expensing of costs to the underlying revenue recognition method). We classify project assets generally as noncurrent due to the nature of solar power projects (long-lived assets) and the time required to complete all activities to develop, construct, and sell projects, which is typically longer than 12 months.

Deferred project costs represent (i) costs that we capitalize as project assets for arrangements that we account for as real estate transactions after we have entered into a definitive sales arrangement, but before the sale is completed or before we have met all criteria to recognize the sale as revenue, (ii) recoverable pre-contract costs that we capitalize for arrangements accounted for as long-term construction contracts prior to entering into a definitive sales agreement, or (iii) costs that we capitalize for arrangements accounted for as long-term construction contracts after we have signed a definitive sales agreement, but before all revenue recognition criteria have been met. We classify deferred project costs as current if completion of the sale and the meeting of all revenue recognition criteria is expected within the next 12 months.

If a project asset is completed and begins commercial operation prior to entering into or the closing of a sales arrangement, the completed project will remain in project assets or deferred project costs until the sale of such project closes. Any income generated by such project while it remains within project assets or deferred project costs is accounted for as a reduction to our basis in the project, which at the time of sale and meeting all revenue recognition criteria will be recorded within cost of sales.

Project assets and deferred project costs consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Project assets — land	$ 523	$ 9,164
Project assets — development costs including project acquisition costs	448,490	157,489
Project assets — construction costs	44,389	192,171
Project assets — projects in commercial operation under project PPAs	63,925	—
Project assets	$ 557,327	$ 358,824
Deferred project costs — current	$ 752,241	$ 21,390
Deferred project costs — non-current	33,570	486,654
Deferred project costs	785,811	$ 508,044
Total project assets and deferred project costs	$ 1,343,138	$ 866,868

Note Receivable, Affiliate

In January 2012, we contributed an immaterial amount for a 50% ownership interest in a newly formed limited liability company (“property company”), which was formed for the sole purpose of holding land for use in the development of a certain solar power project. One of our customers also contributed an immaterial amount for the remaining 50% ownership interest in the property company. The activities for the property company were governed by a shareholders agreement. The intent of the shareholders agreement was to outline the parameters of the arrangement with our customer, whereby we would supply solar modules to our customer for the solar power project and our customer would develop, construct, and sell the project. The shareholders agreement also required each party to consent to all decisions made for the most significant activities of the property company. There were no requirements for us to make further contributions to the property company and the proceeds from the sale of the project were to be divided equally between us and our customer after the repayment of all project development related

costs including the repayment of the loan discussed further below.

We also entered into a loan agreement, with a 6% per annum interest rate, with the property company, which is considered an affiliate, which required that the proceeds be used to purchase the project land and to pay for certain land development costs. Construction of the project was substantially completed during September 2012. During the first quarter of 2013, the then outstanding principal balance on this loan of €13.4 million was repaid in full. Additionally, €1.1 million of interest income was received under the terms of the loan, representing the cumulative interest due from the property company since the inception of the loan.

The property company is considered a variable interest entity and our previous ownership interest in and our loan to the property company were considered variable interests. We accounted for our investment in the property company under the equity method of accounting as we concluded we were not the primary beneficiary as we did not have the power to make decisions for the most significant activities of the property company. We had no remaining ownership interest or equity method investment balance related to the property company as of September 30, 2013.

Other assets

Other assets consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Note receivable (1)	$ 9,485	$ 9,260
Income taxes receivable	7,501	7,258
Deferred rent	21,274	21,570
Investments in unconsolidated affiliates and joint ventures (2)	17,382	5,073
Intangible assets, net (3)	116,649	3,735
Other	8,388	9,556
Other assets	$ 180,679	$ 56,452

(1) On April 8, 2009, we entered into a credit facility agreement with a solar power project entity of one of our customers for an available amount of €17.5 million to provide financing for a PV solar power system. The credit facility replaced a bridge loan that we had made to this entity. The credit facility bears interest at 8% per annum payable quarterly, with the full amount due on December 31, 2026. As of September 30, 2013 and December 31, 2012, the balance on this credit facility was €7.0 million ($9.5 million and $9.3 million, respectively at the balance sheet dates).

(2) Joint ventures or other business arrangements with strategic partners are a key part of our Long Term Strategic Plan, and we have begun initiatives in several markets using such arrangements to expedite our penetration of those markets and establish relationships with potential customers and policymakers. Some of these business arrangements have and are expected in the future to involve significant investments or other allocations of capital on our part. Investments in unconsolidated entities over which we have significant influence are accounted for under the equity method of accounting. Investments in entities in which we do not have the ability to exert significant influence over the investees' operating and financing activities are accounted for under the cost method of accounting. We made $3.0 million and $17.9 million of cash investments in unconsolidated entities during the three and nine months ended September 30, 2013 primarily related to furthering our goal of expanding our service and product offerings and developing partnerships in new markets. The following table summarizes our equity and cost method investments as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Equity method investments	$ 12,200	$ —
Cost method investments	5,182	5,073
Investments in unconsolidated affiliates and joint ventures	$ 17,382	$ 5,073

(3) Intangible assets includes those assets acquired primarily as part of our GE and TetraSun acquisitions described in Note 5. "Business Acquisitions" and our internally-generated intangible assets, substantially all of which are patents on technologies related to our products and production processes. We record an asset for patents, after the patent has been issued, based on the legal, filing, and other costs incurred to secure them. We amortize intangible assets on a

straight-line basis over their estimated useful lives once the intangible assets meet the criteria to be amortized. $112.8 million of the $122.6 million of intangible assets, gross as of September 30, 2013 consists of IPR&D related to assets that were acquired as part of the TetraSun and GE acquisitions. Such assets will be amortized over their estimated useful lives upon successful completion of the project or expensed earlier if impaired. The following table summarizes our intangible assets at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Intangible assets, gross	$ 122,639	$ 9,139
Accumulated amortization	(5,990)	(5,404)
Intangible assets, net	$ 116,649	$ 3,735

Goodwill

Goodwill, summarized by relevant operating segment, consisted of the following as of September 30, 2013 and December 31, 2012 (in thousands):

	Components	Systems	Consolidated
Ending balance December 31, 2012	$—	$65,444	$65,444
Goodwill from acquisitions	16,152	3,389	19,541
Ending balance September 30, 2013	$16,152	$68,833	$84,985

Goodwill represents the excess of the purchase price of acquired business over the estimated fair value assigned to the individual assets acquired and liabilities assumed. We do not amortize goodwill, but instead are required to test goodwill for impairment at least annually in the fourth quarter, and if necessary, we would record any impairment in accordance with ASC 350, Intangibles - Goodwill and Other. We will perform an impairment test between scheduled annual tests if facts and circumstances indicate that it is more-likely-than-not that the fair value of a reporting unit that has goodwill is less than its carrying value.

Accrued expenses

Accrued expenses consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Accrued compensation, benefits and severance	$ 44,887	$ 105,677
Accrued property, plant and equipment	35,167	20,564
Accrued inventory and balance of systems parts	49,681	52,408
Accrued project assets and deferred project costs	72,653	76,133
Product warranty liability (Note 14)	49,743	90,581
Accrued expenses in excess of normal product warranty liability and related expenses (1)	48,430	75,020
Other	63,984	134,050
Accrued expenses	$ 364,545	$ 554,433

(1) Accrued expenses in excess of normal product warranty liability and related expenses consists primarily of commitments to certain customers, each related to the manufacturing excursion occurring during the period between June 2008 to June 2009 (“2008-2009 manufacturing excursion”), whereby certain modules manufactured during that time period may experience premature power loss once installed in the field. Additionally, included in such accrued expenses are commitments to certain customers related to a workmanship issue potentially affecting solar modules manufactured between October 2008 to June 2009, as a limited number of the modules manufactured during that time utilized a new material and process to attach the cord plate (junction box) to the module which may not adhere securely over time.

Our best estimate for such remediation programs is based on evaluation and consideration of currently available information, including the estimated number of potentially affected modules in the field, historical experience related

to our remediation efforts, customer-provided data related to potentially affected systems, the estimated costs of performing the removal, replacement and logistical services and the post-sale expenses covered under our remediation program. If any of our estimates prove incorrect, we could be required to accrue additional expenses.

Other current liabilities

Other current liabilities consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Deferred revenue	$ 373	$ 2,056
Derivative instruments	5,569	5,825
Deferred tax liabilities	—	2,226
Billings in excess of costs and estimated earnings (1)	85,169	2,422
Contingent consideration	21,705	—
Other	19,198	21,824
Other current liabilities	$ 132,014	$ 34,353

(1) Billings in excess of costs and estimated earnings represents billings made or payments received in excess of revenue recognized on contracts accounted for under the percentage-of-completion method. Typically, billings are made based on the completion of certain construction milestones as provided for in the sales arrangement and the timing of revenue recognition may be different from when we can bill or collect from a customer.

Other liabilities

Other liabilities consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Product warranty liability (Note 14)	$ 139,935	$ 101,015
Other taxes payable	116,459	102,599
Billings in excess of costs and estimated earnings (1)	35,855	47,623
Contingent consideration	72,801	—
Other	48,450	40,979
Other liabilities	$ 413,500	$ 292,216

(1) Billings in excess of costs and estimated earnings represents billings made or payments received in excess of revenue recognized on contracts accounted for under the percentage-of-completion method. Typically, billings are made based on the completion of certain construction milestones as provided for in the sales arrangement and the timing of revenue recognition may be different from when we can bill or collect from a customer.

Payments and billings for deferred project costs

Payments and billings for deferred project costs - current totaling $888.1 million and $94.5 million at September 30, 2013 and December 31, 2012, respectively and payments and billings for deferred project costs - noncurrent totaling $10.5 million and $636.5 million at September 30, 2013 and December 31, 2012, respectively represent customer payments received or customer billings made under the terms of solar power project related sales contracts for which all revenue recognition criteria for real estate transactions have not yet been met. The associated solar power project related costs are included as deferred project costs. We classify such amounts as current or non current depending upon when all revenue recognition criteria are expected to be met, consistent with the classification of the associated deferred project costs.

Contingent Consideration

In connection with TetraSun and Solar Chile acquisitions we agreed to pay additional amounts to sellers contingent upon achievement by the acquired businesses of certain negotiated goals, such as targeted project and module shipment volume milestones. We have recognized $0.5 million and $22.6 million of current and long-term liabilities, respectively, for these contingent obligations based on their estimated fair value at the date of acquisition.

As we continue to execute on our Long Term Strategic Plan, we continually seek to make additions to our advance stage project pipeline. We are actively developing our early to mid-stage project pipeline in order to secure PPAs and we are also pursuing opportunities to acquire advance-stage projects, which already have PPAs in place. In connection with these project acquisitions we agreed to pay additional amounts to project sellers upon achievement of project related milestones such as obtaining permits, reaching certain construction stages and project completion. We recognize and accrue for an estimated project acquisition contingent

liability when we determine that such liability is both probable and reasonably estimable. As of September 30, 2013, we have recorded $21.2 million and $50.2 million of current and long-term liabilities, respectively, for these contingent obligations.

10. Percentage-of-Completion Changes in Estimates

We recognize revenue for certain systems business sales arrangements under the percentage-of-completion method as discussed further in Note 2. “Summary of Significant Accounting Policies.” The percentage-of-completion method of revenue recognition requires us to prepare estimates of contracted revenues and costs to complete our projects. In making such estimates, management judgments are required to evaluate significant assumptions including the cost of materials and labor, expected labor productivity, the impact of potential variances in schedule completion, the amount of net contract revenues and the impact of any penalties, claims, change orders, or performance incentives. If estimated total costs on any contract are greater than the contract revenues, we recognize the entire estimated loss in the period the loss becomes known. The cumulative effect of the changes in estimates related to contract revenues and costs to complete contracts are recognized in the period in which the revised estimates are identified and can be reasonably estimated. The effect of the changes in estimates on future periods is recognized as if the revised estimates had been used since entering into the sales arrangements.

Changes in estimates for systems business sales arrangements accounted for under the percentage-of-completion method occur for a variety of reasons including but not limited to (i) changes in estimates to reflect actuals, (ii) construction plan acceleration or delays, (iii) module pricing forecasts, and (iv) change orders from customers. Changes in estimates could have a material effect on our condensed consolidated statements of operations. The table below outlines the impact on gross profit of the aggregate net changes in systems business contract estimates, both increases and (decreases), in the periods presented as well as the number of projects that comprise such aggregate net changes in estimates. For purposes of the below table, we only include projects that have a net impact on gross profit from changes in estimates of at least $1.0 million during a period. Also included in the table below is the net change in estimates as a percentage of the aggregate gross profit for such projects for each period.

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Number of projects	4	4	6	8
Increases (decreases) in gross profit resulting from net changes in estimates (in thousands)	$ 8,166	$ (4,041)	$ 3,638	$ 21,968
Net change in estimates as percentage of aggregate gross profit for associated projects	0.4 %	(0.2)%	0.2 %	1.3 %

11. Derivative Financial Instruments

As a global company, we are exposed in the normal course of business to interest rate and foreign currency risks that could affect our consolidated net assets, financial position, results of operations, and cash flows. We use derivative instruments to hedge against such risks, and we only hold derivative instruments for hedging purposes, not for speculative or trading purposes.

Depending on the terms of the specific derivative instruments and market conditions, some of our derivative instruments may be assets and others liabilities at any particular balance sheet date. As required by ASC 815, Derivatives and Hedging, we report all of our derivative instruments that are within the scope of that accounting standard at fair value. We account for changes in the fair value of derivative instruments within accumulated other comprehensive income (loss) if the derivative instruments qualify for hedge accounting under ASC 815. For those

derivative instruments that do not qualify for hedge accounting ("economic hedges"), we record the changes in fair value directly to earnings. See Note 12. "Fair Value Measurements," to our condensed consolidated financial statements for information about the techniques we use to measure the fair value of our derivative instruments.

The following tables present the fair value of derivative instruments included in our condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013		
	Prepaid Expenses and Other Current Assets	Other Current Liabilities	Other Liabilities
Derivatives designated as hedging instruments under ASC 815:			
Foreign exchange forward contracts	$—	$1,890	$869
Cross-currency swap contract	—	1,495	5,983
Interest rate swap contracts	—	396	437
Total derivatives designated as hedging instruments	$—	$3,781	$7,289
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange forward contracts	$2,998	$1,788	$—
Total derivatives not designated as hedging instruments	$2,998	$1,788	$—
Total derivative instruments	$2,998	$5,569	$7,289

	December 31, 2012		
	Prepaid Expenses and Other Current Assets	Other Current Liabilities	Other Liabilities
Derivatives designated as hedging instruments under ASC 815:			
Foreign exchange forward contracts	$2,121	$—	$—
Cross-currency swap contract	—	316	1,582
Interest rate swap contracts	—	473	994
Total derivatives designated as hedging instruments	$2,121	$789	$2,576
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange forward contracts	$5,109	$5,036	$—
Total derivatives not designated as hedging instruments	$5,109	$5,036	$—
Total derivative instruments	$7,230	$5,825	$2,576

The impact of offsetting balances associated with derivative instruments designated as hedging instruments under ASC 815 is shown below (in thousands):

	September 30, 2013					
				Gross Amounts Not Offset in Consolidated Balance Sheet		
	Gross Asset (Liability)	Gross Offset in Consolidated Balance Sheet	Net Amount Recognized in Financial Statements	Financial Instruments	Cash Collateral Pledged	Net Amount
Foreign exchange forward contracts	$(2,759)	—	(2,759)	—	—	$(2,759)
Cross-currency swap contracts	$(7,478)	—	(7,478)	—	—	$(7,478)

Interest rate swap contracts	$(833)	—	(833)	—	—	$(833)

25

	December 31, 2012					
				Gross Amounts Not Offset in Consolidated Balance Sheet		
	Gross Asset (Liability)	Gross Offset in Consolidated Balance Sheet	Net Amount Recognized in Financial Statements	Financial Instruments	Cash Collateral Pledged	Net Amount
Foreign exchange forward contracts	$2,121	—	2,121	—	—	$2,121
Cross-currency swap contracts	$(1,898)	—	(1,898)	—	—	$(1,898)
Interest rate swap contracts	$(1,467)	—	(1,467)	—	—	$(1,467)

The following tables present the amounts related to derivative instruments designated as cash flow hedges under ASC 815 affecting accumulated other comprehensive income (loss) and our condensed consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Foreign Exchange Forward Contracts	Interest Rate Swap Contract	Cross Currency Swap Contract	Total
Balance in other comprehensive income (loss) at December 31, 2012	$8,980	$(1,467)	$(8,031)	$(518)
Amounts recognized in other comprehensive income (loss)	4,135	100	(1,604)	2,631
Amounts reclassified to net sales as a result of forecasted transactions being probable of not occurring	(13,115)	—	—	(13,115)
Amounts reclassified to earnings impacting:				
Foreign currency loss	—	—	1,974	1,974
Interest expense	—	209	85	294
Balance in other comprehensive income (loss) at March 31, 2013	$—	$(1,158)	$(7,576)	$(8,734)
Amounts recognized in other comprehensive income (loss)	—	2	(313)	(311)
Amounts reclassified to earnings impacting:				
Foreign currency loss	—	—	2,912	2,912
Interest expense	—	196	106	302
Balance in other comprehensive income (loss) at June 30, 2013	$—	$(960)	$(4,871)	$(5,831)
Amounts recognized in other comprehensive income (loss)	(1,753)	(89)	(2,422)	(4,264)
Amounts reclassified to earnings impacting:				
Foreign currency loss	—	—	1,247	1,247
Interest expense	—	216	129	345
Balance in other comprehensive income (loss) at September 30, 2013	$(1,753)	$(833)	$(5,917)	$(8,503)

	Foreign Exchange Forward Contracts	Interest Rate Swap Contracts	Cross Currency Swap Contract	Total
Balance in other comprehensive income (loss) at December 31, 2011	$33,751	$(2,571)	$(5,899)	$25,281
Amounts recognized in other comprehensive income (loss)	(11,341)	(914)	4,347	(7,908)
Amounts reclassified to earnings impacting:				
Net sales	(6,710)	—	—	(6,710)
Foreign currency gain	—	—	(5,003)	(5,003)
Interest expense	—	244	71	315
Balance in other comprehensive income (loss) at March 31, 2012	$15,700	$(3,241)	$(6,484)	$5,975
Amounts recognized in other comprehensive income (loss)	5,825	(334)	(5,989)	(498)
Amounts reclassified to net sales as a result of forecasted transactions being probable of not occurring	(3,385)	—	—	(3,385)
Amounts reclassified to earnings impacting:				
Foreign currency loss	—	—	5,382	5,382
Interest expense	—	2,084	131	2,215
Balance in other comprehensive income (loss) at June 30, 2012	$18,140	$(1,491)	$(6,960)	$9,689
Amounts recognized in other comprehensive income (loss)	(7,002)	(301)	3,568	(3,735)
Amounts reclassified to net sales as a result of forecasted transactions being probable of not occurring	(987)	—	—	(987)
Amounts reclassified to earnings impacting:				
Net sales	(1,593)	—	—	(1,593)
Foreign currency gain	—	—	(5,654)	(5,654)
Interest expense	—	192	85	277
Balance in other comprehensive income (loss) at September 30, 2012	$8,558	$(1,600)	$(8,961)	$(2,003)

We recorded immaterial amounts related to ineffective portions of our derivative instruments designated as cash flow hedges during the three and nine months ended September 30, 2013 and 2012 directly to other income (expense), net. In addition, we recognized unrealized losses of $1.0 million and $1.4 million related to amounts excluded from effectiveness testing for our foreign exchange forward contracts designated as cash flow hedges within other income (expense), net during the three and nine months ended September 30, 2013, respectively. We recognized unrealized losses of $0.2 million and gains of $1.7 million related to amounts excluded from effectiveness testing for our foreign exchange forward contracts designated as cash flow hedges within other income (expense), net during the three and nine months ended and September 30, 2012, respectively.

The following table presents the amounts related to derivative instruments not designated as hedges under ASC 815 affecting our condensed consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Amount of Gain (Loss) Recognized in Income on Derivatives			
	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended

Derivatives not designated as hedging instruments under ASC 815:	Location of Gain (Loss) Recognized in Income on Derivatives	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Foreign exchange forward contracts	Foreign currency gain (loss)	$2,005	$ 3,857	$ 3,868	$ 2,334
Foreign exchange forward contracts	Cost of sales	$(1,793)	$ (257)	$ (2,566)	$ (995)
Foreign exchange forward contracts	Net Sales	$(342)	$ —	$ 5,324	$ —

Interest Rate Risk

27

We use cross-currency swap and interest rate swap contracts to mitigate our exposure to interest rate fluctuations associated with certain of our debt instruments; we do not use such swap contracts for speculative or trading purposes.

On September 30, 2011, we entered into a cross-currency swap contract to hedge the floating rate foreign currency denominated loan under our Malaysian Ringgit Facility Agreement. This swap had an initial notional value of Malaysian Ringgit ("MYR") MYR 465.0 million and entitles us to receive a three-month floating Kuala Lumpur Interbank Offered Rate ("KLIBOR") interest rate, and requires us to pay a fixed U.S. dollar rate of 3.495%. Additionally, this swap hedges the foreign currency risk of the Malaysian Ringgit denominated principal and interest payments as we make swap payments in U.S. dollars and receive swap payments in Malaysian Ringgits at a fixed exchange rate 3.19 MYR to USD. The notional amount of the swap is scheduled to decline in correspondence to our scheduled principal payments on the underlying hedged debt. As of September 30, 2013 and December 31, 2012, the notional value of this cross-currency swap agreement was MYR 387.5 million and MYR 465.0 million, respectively. This swap is a derivative instrument that qualifies for accounting as a cash flow hedge in accordance with ASC 815 and we designated it as such. We determined that this swap was highly effective as a cash flow hedge at September 30, 2013 and December 31, 2012. For the three and nine months ended September 30, 2013 and September 30, 2012, there were immaterial amounts of ineffectiveness from this cash flow hedge.

On May 29, 2009, we entered into an interest rate swap contract to hedge a portion of the floating rate loans under our Malaysian Credit Facility, which became effective on September 30, 2009 with an initial notional value of €57.3 million and pursuant to which we are entitled to receive a six-month floating Euro Interbank Offered Rate ("EURIBOR") interest rate, and are required to pay a fixed rate of 2.80%. The notional amount of the interest rate swap contract is scheduled to decline in correspondence to our scheduled principal payments on the underlying hedged debt. As of September 30, 2013 and December 31, 2012, the notional value of this interest rate swap contract was €19.7 million and €29.1 million, respectively. This derivative instrument qualifies for accounting as a cash flow hedge in accordance with ASC 815, and we designated it as such. We determined that our interest rate swap contract was highly effective as a cash flow hedge at September 30, 2013 and December 31, 2012. For the three and nine months ended September 30, 2013 and September 30, 2012, there were immaterial amounts of ineffectiveness from this cash flow hedge.

In the following 12 months, we expect to reclassify to earnings $1.9 million of net unrealized losses related to swap contracts that are included in accumulated other comprehensive income (loss) at September 30, 2013 as we realize the earnings effect of the underlying loans. The amount we ultimately record to earnings will depend on the actual interest rates and foreign exchange rate when we realize the earnings effect of the underlying loans.

Foreign Currency Exchange Risk

Cash Flow Exposure

We expect many of the subsidiaries of our business to have material future cash flows, including net sales and expenses that will be denominated in currencies other than the subsidiaries' functional currency. Our primary cash flow exposures are net sales and expenses. Changes in the exchange rates between our subsidiaries' functional currency and the other currencies in which they transact will cause fluctuations in the cash flows we expect to receive or pay when these cash flows are realized or settled. Accordingly, we enter into foreign exchange forward contracts to hedge a portion of these forecasted cash flows. As of September 30, 2013 and December 31, 2012, these foreign exchange forward contracts hedged our forecasted cash flows for up to 1.8 years and 3 months, respectively. These foreign exchange forward contracts qualify for accounting as cash flow hedges in accordance with ASC 815, and we designated them as such. We initially report the effective portion of the derivative's unrealized gain or loss in accumulated other comprehensive income (loss) and subsequently reclassify amounts into earnings when the hedged transaction occurs and impacts earnings. We determined that these derivative financial instruments were highly

effective as cash flow hedges at September 30, 2013 and at December 31, 2012. During the nine months ended September 30, 2013 and 2012, we did not discontinue any cash flow hedges because a hedging relationship was no longer highly effective.

During the three months ended September 30, 2013 we purchased foreign exchange forward contracts to hedge the exchange risk on forecasted cash flows denominated in Australian dollars. As of September 30, 2013 and December 31, 2012, the notional values associated with our foreign exchange forward contracts qualifying as cash flow hedges were as follows (notional amounts and U.S. dollar equivalents in millions):

September 30, 2013

Currency	Notional Amount	USD Equivalent
Australian dollar	AUD 148.9	$138.7

December 31, 2012

Currency	Notional Amount	USD Equivalent
Canadian dollar	CAD 192.0	$195.1

As of September 30, 2013, the net unrealized loss on these contracts was $1.8 million. As of December 31, 2012, the net unrealized gain on these contracts was $9.0 million.

In the following 12 months, we expect to reclassify to earnings $1.2 million of net unrealized losses related to AUD forward contracts that are included in accumulated other comprehensive income (loss) at September 30, 2013 as we realize the earnings effect of the related forecasted transactions. The amount we ultimately record to earnings will depend on the actual exchange rate when we realize the related forecasted transactions.

Transaction Exposure and Economic Hedging

Many subsidiaries of our business have assets and liabilities (primarily receivables, marketable securities and investments, accounts payable, debt, and solar module collection and recycling liabilities) that are denominated in currencies other than the subsidiaries' functional currencies. Changes in the exchange rates between our subsidiaries' functional currencies and the other currencies in which these assets and liabilities are denominated can create fluctuations in our reported condensed consolidated statements of operations, and cash flows. We may enter into foreign exchange forward contracts or other financial instruments to economically hedge assets and liabilities against the effects of currency exchange rate fluctuations. The gains and losses on the foreign exchange forward contracts will economically offset all or part of the transaction gains and losses that we recognize in earnings on the related foreign currency denominated assets and liabilities.

We purchase foreign exchange forward contracts to economically hedge balance sheet and other exposures related to transactions with third parties. Such contracts are considered economic hedges and do not qualify for hedge accounting under ASC 815. We recognize gains or losses from the fluctuation in foreign exchange rates and the fair value of these derivative contracts in "Net sales", "Cost of sales", and "Foreign currency gain (loss)" on our condensed consolidated statements of operations, depending on where the gain or loss from the economically hedged item is classified on our condensed consolidated statements of operations. As of September 30, 2013 and December 31, 2012 the total net unrealized gain on our economic hedge foreign exchange forward contracts was $1.2 million and $0.1 million, respectively. As these amounts do not qualify for hedge accounting, changes in fair value related to such derivative instruments are recorded directly to earnings. These contracts have maturities of less than three months.

As of September 30, 2013 and December 31, 2012, the notional values of our foreign exchange forward contracts that do not qualify for hedge accounting under ASC 815 were as follows (notional amounts and U.S. dollar equivalents in millions):

September 30, 2013

Transaction	Currency	Notional Amount	USD Equivalent
Purchase	Euro	€85.6	$116.0
Sell	Euro	€79.8	$108.1
Purchase	Australian dollar	AUD 2.4	$2.2
Sell	Australian dollar	AUD 10.9	$10.2
Purchase	Malaysian ringgit	MYR 114.6	$35.5
Sell	Malaysian ringgit	MYR 43.5	$13.5
Sell	Canadian dollar	CAD 33.0	$32.0
Purchase	Chinese yuan	CNY 26.0	$4.2
Sell	Chinese yuan	CNY 13.0	$2.1
Sell	Japanese yen	JPY 475.0	$4.8

December 31, 2012

Transaction	Currency	Notional Amount	USD Equivalent
Purchase	Euro	€128.7	$170.2
Sell	Euro	€134.2	$177.5
Sell	Australian dollar	AUD 8.5	$8.8
Purchase	Malaysian ringgit	MYR 136.4	$45.0
Sell	Malaysian ringgit	MYR 36.0	$11.9
Purchase	Canadian dollar	CAD 22.4	$22.6
Sell	Canadian dollar	CAD 15.8	$16.0

12. Fair Value Measurements

The following is a description of the valuation techniques that we use to measure the fair value of assets and liabilities that we measure and report at fair value on a recurring basis:

- Cash equivalents. At September 30, 2013 and December 31, 2012, our cash equivalents consisted of commercial paper and money market mutual funds. We value our commercial paper cash equivalents using quoted prices for securities with similar characteristics and other observable inputs (such as interest rates that are observable at commonly quoted intervals). Accordingly, we classify the valuation techniques that use these inputs as Level 2. We value our money market cash equivalents using observable inputs that reflect quoted prices for securities with identical characteristics, and accordingly, we classify the valuation techniques that use these inputs as Level 1.

- Marketable securities and restricted investments. At September 30, 2013 and December 31, 2012, our marketable securities consisted of commercial paper, corporate debt securities, federal and foreign agency debt, foreign government obligations, supranational debt and U.S. government obligations, and our restricted investments consisted of foreign and U.S. government obligations. We value our marketable securities and restricted investments using quoted prices for securities with similar characteristics and other observable inputs (such as interest rates that are observable at commonly quoted intervals), and accordingly, we classify the valuation techniques that use these inputs as Level 2. We also consider the effect of our counterparties' credit standings in these fair value measurements.

- Derivative assets and liabilities. At September 30, 2013 and December 31, 2012, our derivative assets and liabilities consisted of foreign exchange forward contracts involving major currencies, interest rate swap contracts involving a benchmark of interest rates, and a cross-currency swap including both. Since our derivative assets and liabilities are not traded on an exchange, we value them using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies. These

inputs are observable in active markets over the contract term of the derivative instruments we hold, and accordingly, we classify these valuation techniques as Level 2. We consider the effect of our own credit standing and that of our counterparties in our fair value measurements of our derivative assets and liabilities, respectively.

At September 30, 2013 and December 31, 2012, the fair value measurements of our assets and liabilities that we measure on a recurring basis were as follows (in thousands):

	As of September 30, 2013			
		Fair Value Measurements at Reporting Date Using		
	Total Fair Value and Carrying Value on Our Balance Sheet	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Commercial paper	$—	$—	$—	$—
Money market funds	64,075	64,075	—	—
Marketable securities:				
Commercial paper	1,699	—	1,699	—
Corporate debt securities	137,033	—	137,033	—
Federal agency debt	22,119	—	22,119	—
Foreign agency debt	110,261	—	110,261	—
Foreign government obligations	25,156	—	25,156	—
Supranational debt	39,466	—	39,466	—
U.S. government obligations	3,502	—	3,502	—
Restricted investments (excluding restricted cash)	278,589	—	278,589	—
Derivative assets	2,998	—	2,998	—
Total assets	$684,898	$64,075	$620,823	$—
Liabilities:				
Derivative liabilities	$12,858	$—	$12,858	$—

	As of December 31, 2012			
		Fair Value Measurements at Reporting Date Using		
	Total Fair Value and Carrying Value on Our Balance Sheet	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Commercial paper	$1,500	$—	$1,500	$—
Money market funds	10,729	10,729	—	—
Marketable securities:				
Commercial paper	1,698	—	1,698	—
Corporate debt securities	23,384	—	23,384	—
Federal agency debt	29,936	—	29,936	—
Foreign agency debt	7,233	—	7,233	—

Foreign government obligations	4,142	—	4,142	—
Supranational debt	34,181	—	34,181	—
U.S. government obligations	2,004	—	2,004	—
Restricted investments (excluding restricted cash)	301,216	—	301,216	—
Derivative assets	7,230	—	7,230	—
Total assets	$423,253	$10,729	$412,524	$—
Liabilities:				
Derivative liabilities	$8,401	$—	$8,401	$—

Fair Value of Financial Instruments

The carrying values and fair values of our financial and derivative instruments at September 30, 2013 and December 31, 2012 were as follows (in thousands):

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Marketable securities	$339,236	$339,236	$102,578	$102,578
Foreign exchange forward contract assets	$2,998	$2,998	$7,230	$7,230
Restricted investments (excluding restricted cash)	$278,589	$278,589	$301,216	$301,216
Note receivable, affiliate	$—	$—	$17,725	$17,723
Notes receivable — noncurrent	$9,485	$9,432	$9,260	$9,371
Liabilities:				
Long-term debt, including current maturities	$229,214	$230,331	$562,572	$565,879
Interest rate swap contract liabilities	$833	$833	$1,467	$1,467
Cross-currency swap contract liabilities	$7,478	$7,478	$1,898	$1,898
Foreign exchange forward contract liabilities				