

FIRST SOLAR, INC.
Form 10-Q
November 09, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from to

Commission file number: 001-33156

First Solar, Inc.

(Exact name of registrant as specified in its charter)

Delaware

20-4623678

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

350 West Washington Street, Suite 600

Tempe, Arizona 85281

(Address of principal executive offices, including zip code)

(602) 414-9300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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(Do not check if a 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

As of November 6, 2015, 100,920,115 shares of the registrant's common stock, \$0.001 par value per share, were outstanding.

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FIRST SOLAR, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales	\$1,271,245	\$890,288	\$2,636,671	\$2,383,194
Cost of sales	786,880	700,886	1,948,842	1,866,635
Gross profit	484,365	189,402	687,829	516,559
Operating expenses:				
Research and development	29,630	37,593	93,865	109,025
Selling, general and administrative	53,716	66,528	192,305	182,859
Production start-up	3,198	1,406	16,818	1,897
Total operating expenses	86,544	105,527	302,988	293,781
Operating income	397,821	83,875	384,841	222,778
Foreign currency (loss) gain, net	(1,803)	) 905	(4,981)	) (192)
Interest income	5,322	4,297	16,444	13,151
Interest expense, net	(1,775)	) (89)	) (2,795)	) (1,429)
Other expense, net	(1,678)	) (1,758)	) (3,729)	) (4,698)
Income before taxes and equity in earnings of unconsolidated affiliates	397,887	87,230	389,780	229,610
Income tax (expense) benefit	(48,454)	) 6,948	(9,134)	) (20,643)
Equity in earnings of unconsolidated affiliates, net of tax	(115)	) (4,345)	) 1,640	) (6,321)
Net income	\$349,318	\$89,833	\$382,286	\$202,646
Net income per share:				
Basic	\$3.46	\$0.90	\$3.80	\$2.03
Diluted	\$3.41	\$0.89	\$3.75	\$1.99
Weighted-average number of shares used in per share calculations:				
Basic	100,906	100,197	100,713	99,981
Diluted	102,299	101,415	101,845	101,686

See accompanying notes to these condensed consolidated financial statements.

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FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$349,318	\$89,833	\$382,286	\$202,646
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(1,103)	(9,887)	(14,001)	(11,548)
Unrealized gain (loss) on marketable securities and restricted investments	17,944	19,847	(4,409)	58,468
Unrealized (loss) gain on derivative instruments	(1,338)	5,798	(3,239)	2,043
Other comprehensive income (loss), net of tax	15,503	15,758	(21,649)	48,963
Comprehensive income	\$364,821	\$105,591	\$360,637	\$251,609

See accompanying notes to these condensed consolidated financial statements.

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FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,189,703	\$ 1,482,054
Marketable securities	619,814	509,032
Accounts receivable trade, net	328,927	135,434
Accounts receivable, unbilled and retainage	241,119	76,971
Inventories	379,183	505,088
Balance of systems parts	104,392	125,083
Deferred project costs	98,421	29,354
Deferred tax assets, net	78,092	91,565
Notes receivable, affiliate	1,279	12,487
Prepaid expenses and other current assets	210,399	202,151
Total current assets	3,251,329	3,169,219
Property, plant and equipment, net	1,330,054	1,419,988
PV solar power systems, net	93,420	46,393
Project assets and deferred project costs	1,030,436	810,348
Deferred tax assets, net	264,200	222,326
Restricted cash and investments	403,160	407,053
Investments in unconsolidated affiliates and joint ventures	299,103	255,029
Goodwill	84,985	84,985
Other intangibles, net	112,470	119,236
Inventories	108,558	115,617
Notes receivable, affiliates	17,754	9,127
Other assets	65,173	61,670
Total assets	\$ 7,060,642	\$ 6,720,991
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 303,593	\$ 214,656
Income taxes payable	2,028	1,727
Accrued expenses	412,167	388,156
Current portion of long-term debt	38,663	51,399
Billings in excess of costs and estimated earnings	74,102	195,346
Payments and billings for deferred project costs	22,699	60,591
Other current liabilities	43,035	88,702
Total current liabilities	896,287	1,000,577
Accrued solar module collection and recycling liability	164,304	246,307
Long-term debt	246,814	162,074
Other liabilities	364,509	320,546
Total liabilities	1,671,914	1,729,504
Commitments and contingencies		
Stockholders' equity:	101	100

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Common stock, \$0.001 par value per share; 500,000,000 shares authorized;
100,919,021 and 100,288,942 shares issued and outstanding at September 30, 2015 and
December 31, 2014, respectively

Additional paid-in capital	2,734,161	2,697,558
Accumulated earnings	2,625,975	2,243,689
Accumulated other comprehensive income	28,491	50,140
Total stockholders' equity	5,388,728	4,991,487
Total liabilities and stockholders' equity	\$ 7,060,642	\$ 6,720,991

See accompanying notes to these condensed consolidated financial statements.

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FIRST SOLAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$382,286	\$202,646
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation, amortization and accretion	193,923	183,139
Share-based compensation	33,146	32,069
Remeasurement of monetary assets and liabilities	(10,341	) 8,159
Deferred income taxes	(7,050	) 38,351
Excess tax benefits from share-based compensation arrangements	(23,333	) (27,849
Other, net	7,140	12,248
Changes in operating assets and liabilities:		
Accounts receivable, trade, unbilled and retainage	(351,320	) (150,950
Prepaid expenses and other current assets	(37,282	) 3,638
Other assets	(2,299	) (5,472
Inventories and balance of systems parts	147,271	(8,103
Project assets and deferred project costs	(642,835	) 30,809
Accounts payable	108,742	(39,535
Income taxes payable	(19,169	) (28,079
Accrued expenses and other liabilities	(113,905	) (523,635
Accrued solar module collection and recycling liability	(78,990	) 25,557
Net cash used in operating activities	(414,016	) (247,007
Cash flows from investing activities:		
Purchases of property, plant and equipment	(139,270	) (184,249
Purchases of marketable securities	(429,352	) (226,087
Proceeds from sales and maturities of marketable securities	313,359	166,809
Purchases of equity and cost method investments	(12,066	) (2,025
Distributions received from equity method investments	238,980	—
Investments in notes receivable, affiliates	(53,199	) (7,926
Payments received on notes receivable, affiliate	57,866	—
Change in restricted cash	21,360	(189,995
Other investing activities	(83	) (5,325
Net cash used in investing activities	(2,405	) (448,798
Cash flows from financing activities:		
Repayment of long-term debt	(42,332	) (54,839
Proceeds from borrowings under long-term debt, net of discounts and issuance costs	138,639	53,137
Repayment of sale-leaseback financing	(2,708) —
Proceeds from sale-leaseback financing	44,718	—
Excess tax benefit from share-based compensation arrangements	23,333	27,849
Contingent consideration payments and other financing activities	(19,155	) (22,557
Net cash provided by financing activities	142,495	3,590
Effect of exchange rate changes on cash and cash equivalents	(18,425) (10,334
Net decrease in cash and cash equivalents	(292,351) (702,549

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Cash and cash equivalents, beginning of the period	1,482,054	1,325,072
Cash and cash equivalents, end of the period	\$1,189,703	\$622,523
Supplemental disclosure of noncash investing and financing activities:		
Equity interests retained from the partial sale of project assets	\$270,799	\$—
Property, plant and equipment acquisitions funded by liabilities	\$24,266	\$53,601
Acquisitions currently or previously funded by liabilities and contingent consideration	\$11,367	\$73,509

See accompanying notes to these condensed consolidated financial statements.

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FIRST SOLAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of First Solar, Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (the “SEC”). Accordingly, these interim financial statements do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. In the opinion of First Solar management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement have been included. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or for any other period. The condensed consolidated balance sheet at December 31, 2014 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These interim financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2014 included in our Annual Report on Form 10-K, which has been filed with the SEC.

Certain prior year balances have been reclassified to conform to the current year presentation. Such reclassifications did not have a material effect on the interim financial statements. In addition, the method of reporting the condensed consolidated statements of cash flows was changed from the direct to the indirect method.

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

Revision of Previously Issued Financial Statements

We are revising our previously issued financial statements for periods presented in this Quarterly Report on Form 10-Q to properly record a liability associated with an uncertain tax position, including penalties, related to income of a foreign subsidiary along with corresponding adjustments in each successive period for the effect of changes in foreign currency exchange rates associated with the liability. Additional revisions were made for previously identified errors related to sales taxes, use taxes, share-based compensation, and miscellaneous items that were corrected in a period subsequent to the period in which the error originated. As several of these errors affected the estimated costs for systems business sales arrangements accounted for under the percentage-of-completion method, we also recorded adjustments to revenue for the changes in the percentage completion of the affected projects.

We evaluated the aggregate effects of the errors to our previously issued financial statements in accordance with SEC Staff Accounting Bulletins No. 99 and No. 108 and, based upon quantitative and qualitative factors, determined that the errors were not material to the previously issued financial statements and disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2014 or for any quarterly periods included therein or through our most recent Quarterly Report on Form 10-Q. As part of this evaluation, we considered a number of qualitative factors, including, among others, that the errors did not change a net loss into net income or vice versa, did not have an impact on our long-term debt covenant compliance, and did not mask a change in earnings or other trends when considering the overall competitive and economic environment within the industry during the periods. However, the cumulative effect of the errors, including the uncertain tax position matter identified during the three months ended September 30, 2015, is expected to be significant to our financial results for the year ending December 31, 2015.

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Accordingly, we are revising our historical financial statements, which resulted in a \$36.0 million decrease to our accumulated earnings as of December 31, 2014.

All financial information presented in the accompanying notes to these condensed consolidated financial statements was revised to reflect the correction of these errors. Periods not presented herein will be revised, as applicable, as they are included in future filings.

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The following table presents the effect of the aforementioned revisions on our condensed consolidated balance sheet as of December 31, 2014 (in thousands):

	December 31, 2014		
	As Reported	Adjustment	As Revised
Other liabilities	\$284,546	\$36,000	\$320,546
Total liabilities	1,693,504	36,000	1,729,504
Accumulated earnings	2,279,689	(36,000)	2,243,689
Total stockholders' equity	5,027,487	(36,000)	4,991,487

The following tables present the effect of the aforementioned revisions on our condensed consolidated statements of operations for the three and nine months ended September 30, 2014 (in thousands, except per share amounts):

	Three Months Ended September 30, 2014		
	As Reported	Adjustment	As Revised
Net sales	\$889,310	\$978	\$890,288
Cost of sales	700,023	863	700,886
Gross profit	189,287	115	189,402
Operating income	83,760	115	83,875
Foreign currency gain, net	169	736	905
Other expense, net	(2,476)	718	(1,758)
Income before taxes and equity in earnings of unconsolidated affiliates	85,661	1,569	87,230
Income tax benefit	7,108	(160)	6,948
Net income	88,424	1,409	89,833
Comprehensive income	104,182	1,409	105,591
Basic net income per share	\$0.88	\$0.02	\$0.90
Diluted net income per share	\$0.87	\$0.02	\$0.89
	Nine Months Ended September 30, 2014		
	As Reported	Adjustment	As Revised
Net sales	\$2,383,821	\$(627)	\$2,383,194
Cost of sales	1,865,098	1,537	1,866,635
Gross profit	518,723	(2,164)	516,559
Operating income	224,942	(2,164)	222,778
Foreign currency loss, net	(389)	197	(192)
Other expense, net	(5,416)	718	(4,698)
Income before taxes and equity in earnings of unconsolidated affiliates	230,859	(1,249)	229,610
Income tax expense	(19,579)	(1,064)	(20,643)
Net income	204,959	(2,313)	202,646
Comprehensive income	253,922	(2,313)	251,609
Basic net income per share	\$2.05	\$(0.02)	\$2.03
Diluted net income per share	\$2.02	\$(0.03)	\$1.99

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The following table presents the effect of the aforementioned revisions on our condensed consolidated statement of cash flows for the nine months ended September 30, 2014 (in thousands):

	Nine Months Ended September 30, 2014		
	As Reported	Adjustment	As Revised
Net income	\$204,959	\$(2,313)	\$202,646
Adjustments to reconcile net income to cash used in operating activities:			
Remeasurement of monetary assets and liabilities	8,356	(197)	8,159
Changes in operating assets and liabilities:			
Accounts receivable, trade, unbilled and retainage	(159,754)	8,804	(150,950)
Prepaid expenses and other current assets	20,496	(16,858)	3,638
Project assets and deferred project costs	29,670	1,139	30,809
Accounts payable	(38,817)	(718)	(39,535)
Income taxes payable	(27,937)	(142)	(28,079)
Accrued expenses and other liabilities	(533,920)	10,285	(523,635)
Net cash used in operating activities	(247,007)	—	(247,007)

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. On an ongoing basis, we evaluate our estimates, including those related to percentage-of-completion revenue recognition, inventory valuation, recoverability of project assets and photovoltaic (“PV”) solar power systems, estimates of future cash flows from and the economic useful lives of long-lived assets, asset retirement obligations, certain accrued liabilities, income taxes and tax valuation allowances, reportable segment allocations, product warranties and manufacturing excursions, accrued collection and recycling expense, and 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”) 605-35, Construction-Type and Production-Type Contracts, or ASC 360-20, Real Estate Sales, for arrangements which include land or land rights.

For systems business sales arrangements that do not include land or land rights and thus are accounted for under ASC 605-35, 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.

For systems business sales arrangements that are accounted for under ASC 360-20 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 where we convey control of land or land rights, 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. 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. The initial and continuing investment requirements, which demonstrate a buyer’s commitment to honor its obligations for the sales arrangement, can typically be met through the receipt of cash or an irrevocable letter of credit from a highly creditworthy lending institution.

Depending on whether the initial and continuing investment requirements have been met and whether collectability (ii) from the buyer is reasonably assured, we may align our revenue recognition and release of project assets or deferred project

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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.

For any systems business sales arrangements containing multiple deliverables (including our solar modules) not required to be accounted for under ASC 605-35 (long-term construction contracts) or ASC 360-20 (real estate), we analyze each activity within the sales arrangement to 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 the total estimated costs (including module costs) in order to determine the progress towards completion and calculate the corresponding amount of revenue and profit to recognize. Costs incurred include direct materials, solar modules, labor, subcontractor costs, and those indirect costs related to contract performance, such as indirect labor and supplies. We recognize direct material and solar module costs as incurred 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 the 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 PV solar power system as required by engineering designs. Solar modules manufactured and owned by us that will be used in our systems remain within inventory until such modules are installed in a system.

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

If estimated total costs on any contract are greater than the net 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 net contract revenues and costs to complete contracts, including penalties, claims, change orders, performance incentives, anticipated losses, and others are recorded in the period in which the revisions to estimates are identified and the amounts 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 the changes in estimates.

Revenue Recognition — Operations and Maintenance. Our operations and maintenance (“O&M”) revenue is billed and recognized as services are performed. Costs of these revenues are expensed in the period in which they are incurred.

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 contract. Our customers typically do not have extended payment terms or rights of return for our products.

Ventures and Variable Interest Entities. In the normal course of business we establish wholly owned project companies which may be considered variable interest entities (“VIEs”). We consolidate wholly owned variable interest

entities when we are considered the primary beneficiary of such entities. Additionally, we have, and may in the future form, joint venture type arrangements, including partnerships and partially owned limited liability companies or similar legal structures, with one or more third parties primarily to develop, construct, own, and/or sell solar power projects. These types of ventures are core to our business and long-term strategy related to providing solar PV generation solutions using our modules to key geographic markets. We analyze all of our ventures and classify them into two groups: (i) ventures that must be consolidated because they are either not VIEs and we hold a 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 cost or equity method 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 subordinated 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 conducted

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on behalf of that investor. Our venture agreements typically require us to fund some form of capital for the development and construction of a project, depending upon the opportunity and the market in which our ventures are located.

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 the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the entity. If we determine that we do not have the power to direct the activities that most significantly impact the entity, then we are not the primary beneficiary of the VIE.

Cost and Equity Method Investments. We account for our unconsolidated ventures using either the cost or equity method of accounting depending upon whether we have the ability to exercise significant influence over the venture. As part of this evaluation, we consider our participating and protective rights in the venture as well as its legal form. We record our cost method investments at their historical cost and subsequently record any dividends received from the net accumulated earnings of the investee as income. Dividends received in excess of earnings are considered a return of investment and are recorded as reductions in the cost of the investment. We use the equity method of accounting for our investments when we have the ability to significantly influence the operations or financial activities of the investee. We record our equity method investments at cost and subsequently adjust their carrying amount each period for our share of the earnings or losses of the investee and other adjustments required by the equity method of accounting. Dividends received from our equity method investments are recorded as reductions in the cost of such investments.

We monitor our investments, which are included in "Investments in unconsolidated affiliates and joint ventures" in the accompanying condensed consolidated balance sheets, for impairment and record reductions in their carrying values if the carrying amount of the investment exceeds its fair value. An impairment charge is recorded when such impairment is deemed to be other-than-temporary. To determine whether an impairment is other-than-temporary, we consider our ability and intent to hold the investment until the carrying amount is fully recovered. Circumstances that indicate an other-than-temporary impairment may have occurred include factors such as decreases in quoted market prices or declines in the operations of the investee. The evaluation of an investment for potential impairment requires us to exercise significant judgment and to make certain assumptions. The use of different judgments and assumptions could result in different conclusions. No impairment losses related to our cost and equity method investments were recorded during the three and nine months ended September 30, 2015. We recorded impairment losses related to our cost and equity method investments of \$5.0 million and \$7.1 million during the three and nine months ended September 30, 2014, respectively.

See 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, 2014 for a more complete summary of our significant accounting policies.

3. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. An entity has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. ASU 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, and early adoption is permitted for periods beginning after December 15, 2016. We are currently evaluating the method of adoption and the impact ASU 2014-09 will have on our consolidated financial statements and associated disclosures.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis. ASU 2015-02 modifies existing consolidation guidance related to (i) limited partnerships and similar legal entities, (ii) the evaluation of variable interests for fees paid to decision makers or service providers, (iii) the effect of fee arrangements and related parties on the primary beneficiary determination, and (iv) certain investment funds. These changes are expected to limit the number of consolidation models and place more emphasis on risk of loss when determining a controlling financial interest. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015. We are currently evaluating the impact of ASU 2015-02 on our consolidated financial statements and associated disclosures.

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In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 simplifies the presentation of debt issuance costs by requiring such costs to be presented in the balance sheet as a reduction to the carrying amount of the corresponding debt liability, consistent with debt discounts, rather than as a deferred charge. The adoption of ASU 2015-03 in the second quarter of 2015 resulted in a reclassification of \$0.4 million in unamortized debt issuance costs from “Prepaid expenses and other current assets” to “Current portion of long-term debt” and \$2.6 million in unamortized debt issuance costs from “Other assets” to “Long-term debt” on our condensed consolidated balance sheet as of June 30, 2015. In addition, \$0.5 million in unamortized debt issuance costs was reclassified from “Prepaid expenses and other current assets” to “Current portion of long-term debt,” and \$2.9 million in unamortized debt issuance costs was reclassified from “Other assets” to “Long-term debt” on our condensed consolidated balance sheet as of December 31, 2014.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330) - Simplifying the Measurement of Inventory. ASU 2015-11 simplifies the subsequent measurement of inventory by replacing the current lower of cost or market test with a lower of cost or net realizable value test. ASU 2015-11 is effective for fiscal years and interim periods within those years beginning after December 15, 2016, and early adoption is permitted. We do not expect that ASU 2015-11 will have a significant impact on the subsequent measurement of inventory included in our consolidated financial statements.

4. Cash, Cash Equivalents, and Marketable Securities

Cash, cash equivalents, and marketable securities consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Cash and cash equivalents:		
Cash	\$ 1,103,684	\$ 1,480,452
Cash equivalents:		
Money market funds	86,019	1,602
Total cash and cash equivalents	1,189,703	1,482,054
Marketable securities:		
Foreign debt	579,814	462,731
Time deposits	40,000	40,000
U.S. debt	—	2,800
U.S. government obligations	—	3,501
Total marketable securities	619,814	509,032
Total cash, cash equivalents, and marketable securities	\$ 1,809,517	\$ 1,991,086

We classify our marketable securities as available-for-sale. Accordingly, we record them at fair value and account for the net unrealized gains and losses as part of “Accumulated other comprehensive income” until realized. We record realized gains and losses on the sale or maturity of our marketable securities in “Other expense, net” computed using the specific identification method.

During the three and nine months ended September 30, 2015 we realized no gains or losses on the sale or maturity of our marketable securities. During the three and nine months ended September 30, 2014, we realized zero and \$0.2 million of gains on the sale or maturity of our marketable securities. See Note 8. “Fair Value Measurements” to our condensed consolidated financial statements for information about the fair value of our marketable securities.

As of September 30, 2015, we identified two investments totaling \$26.6 million that had been in a loss position for a period of time greater than 12 months with unrealized losses of \$0.1 million. As of December 31, 2014, we identified

two investments totaling \$41.1 million that had been in a loss position for a period of time greater than 12 months with unrealized losses of less than \$0.1 million. The unrealized losses were primarily due to increases in interest rates relative to rates at the time of purchase. Based on the underlying credit quality of the investments, we do not intend to sell these securities prior to the recovery of our cost basis. Therefore, we did not consider these securities to be other-than-temporarily impaired. All of our available-for-sale marketable securities are subject to a periodic impairment review. We did not identify any of our marketable securities as other-than-temporarily impaired as of September 30, 2015 and December 31, 2014.

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The following tables summarize the unrealized gains and losses related to our available-for-sale marketable securities, by major security type, as of September 30, 2015 and December 31, 2014 (in thousands):

	As of September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Foreign debt	\$580,282	\$224	\$692	\$579,814
Time deposits	40,000	—	—	40,000
Total	\$620,282	\$224	\$692	\$619,814
	As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Foreign debt	\$463,466	\$18	\$753	\$462,731
Time deposits	40,000	—	—	40,000
U.S. debt	2,800	—	—	2,800
U.S. government obligations	3,500	1	—	3,501
Total	\$509,766	\$19	\$753	\$509,032

The contractual maturities of our marketable securities as of September 30, 2015 and December 31, 2014 were as follows (in thousands):

	As of September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
One year or less	\$240,447	\$15	\$216	\$240,246
One year to two years	271,445	29	439	271,035
Two years to three years	108,390	180	37	108,533
Total	\$620,282	\$224	\$692	\$619,814
	As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
One year or less	\$329,974	\$14	\$174	\$329,814
One year to two years	125,892	5	380	125,517
Two years to three years	53,900	—	199	53,701
Total	\$509,766	\$19	\$753	\$509,032

The net unrealized losses of \$0.5 million and \$0.7 million as of September 30, 2015 and December 31, 2014, respectively, on our marketable securities were primarily the result of increases in interest rates relative to rates at the time of purchase. 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 tables show gross unrealized losses and estimated fair values for those marketable securities that were in an unrealized loss position as of September 30, 2015 and December 31, 2014, 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, 2015		
In Loss Position for Less Than 12 Months	In Loss Position for 12 Months or Greater	Total

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	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Foreign debt	\$359,106	\$588	\$26,594	\$104	\$385,700	\$692
Total	\$359,106	\$588	\$26,594	\$104	\$385,700	\$692

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	As of December 31, 2014					
	In Loss Position for Less Than 12 Months		In Loss Position for 12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	Foreign debt	\$391,840	\$740	\$41,060	\$13	\$432,900	$753
Total	\$391,840	\$740	\$41,060	\$13	\$432,900	\$753

5. Restricted Cash and Investments

Restricted cash and investments consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Restricted cash	\$ 63,234	\$ 49,818
Restricted investments	339,926	357,235
Restricted cash and investments (1)	\$ 403,160	\$ 407,053

(1) There was an additional \$39.8 million and \$74.7 million of restricted cash included within prepaid expenses and other current assets at September 30, 2015 and December 31, 2014, respectively.

At September 30, 2015, our restricted cash consisted of deposits held by various banks to secure certain of our letters of credit and deposits designated for the construction of systems projects and payment of amounts related to project construction credit facilities. Restricted cash for our letters of credit is classified as current or noncurrent based on the maturity date of the corresponding letter of credit. See Note 12. "Commitments and Contingencies" to our condensed consolidated financial statements for further discussion relating to letters of credit. Restricted cash for project construction and financing is classified as current or noncurrent based on the projected use of the restricted funds.

At September 30, 2015 and December 31, 2014, our restricted investments consisted of long-term marketable securities that were held in custodial accounts to fund the estimated future costs of collecting and recycling modules covered under our solar module collection and recycling program. We classify our restricted investments as available-for-sale. Accordingly, we record them at fair value and account for the net unrealized gains and losses as a part of "Accumulated other comprehensive income" until realized. We record realized gains and losses on the sale or maturity of our restricted investments in "Other 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.

As necessary, we fund any incremental amounts for our estimated collection and recycling obligations within 90 days of the end of each year. We determine the funding requirement, if any, based on estimated costs of collecting and recycling covered modules, estimated rates of return on our restricted investments, and an estimated solar module life of 25 years less amounts already funded in prior years. To ensure that these funds will be available in the future regardless of any potential adverse changes in our financial condition (even in the case of our own insolvency), we have established a trust under which estimated funds are put into custodial accounts with an established and reputable bank, for which First Solar, Inc. ("FSI"), 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 performing the required collection and recycling services. Investments in these custodial accounts must meet certain investment quality criteria comparable to 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 that are not currently at risk of default. During the nine months ended September 30, 2015, no incremental funding was required.

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The following tables summarize the unrealized gains and losses related to our restricted investments, by major security type, as of September 30, 2015 and December 31, 2014 (in thousands):

	As of September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Foreign government obligations	\$180,461	\$85,314	\$—	\$265,775
U.S. government obligations	60,480	13,671	—	74,151
Total	\$240,941	\$98,985	\$—	\$339,926
	As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Foreign government obligations	\$189,455	\$93,280	\$—	\$282,735
U.S. government obligations	58,510	15,990	—	74,500
Total	\$247,965	\$109,270	\$—	\$357,235

As of September 30, 2015 the contractual maturities of these restricted investments were between 12 years and 21 years. As of December 31, 2014, the contractual maturities of these restricted investments were between 13 years and 22 years.

6. Consolidated Balance Sheet Details

Accounts receivable trade, net

Accounts receivable trade, net consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Accounts receivable trade, gross	\$ 328,929	\$ 142,542
Allowance for doubtful accounts	(2)	(7,108)
Accounts receivable trade, net	\$ 328,927	\$ 135,434

At September 30, 2015 and December 31, 2014, \$20.6 million and \$21.4 million, respectively, of our accounts receivable trade, net were secured by letters of credit, bank guarantees, or other forms of financial security issued by creditworthy financial institutions.

Accounts receivable, unbilled and retainage

Accounts receivable, unbilled and retainage consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Accounts receivable, unbilled	\$ 219,455	\$ 41,868
Retainage	21,664	35,103
Accounts receivable, unbilled and retainage	\$ 241,119	\$ 76,971

Accounts receivable, unbilled represents revenue that has been recognized in advance of billing the customer, which is common for long-term construction contracts. For example, we recognize revenue from contracts for the construction

and sale of PV solar power systems, which include the sale of such assets over the construction period using applicable accounting methods. One such method is the percentage-of-completion method, which recognizes revenue and gross profit as work is performed based on the relationship between actual costs incurred compared to the total estimated costs for the contract. Under this accounting method, revenue could be recognized under applicable revenue recognition criteria 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 customer 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.

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The current portion of retainage is included within “Accounts receivable, unbilled and 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, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Raw materials	\$ 158,816	\$ 157,468
Work in process	25,467	20,829
Finished goods	303,458	442,408
Inventories	\$ 487,741	\$ 620,705
Inventories — current	\$ 379,183	\$ 505,088
Inventories — noncurrent (1)	\$ 108,558	\$ 115,617

- (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.

Balance of systems parts

Balance of systems parts were \$104.4 million and \$125.1 million as of September 30, 2015 and December 31, 2014, respectively, and represented mounting and electrical and other construction parts purchased for PV solar power systems to be constructed or currently under construction, which we held title to and were not yet installed in a system. Such construction parts included items such as posts, tilt brackets, tables, harnesses, combiner boxes, inverters, cables, tracker equipment, and other parts we may purchase or assemble for the systems we construct. Balance of systems parts do 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 plant or recoverability through a sales agreement.

Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Prepaid expenses	\$ 64,337	\$ 42,193
Derivative instruments	1,733	9,791
Restricted cash	39,756	74,695
Other current assets	104,573	75,472
Prepaid expenses and other current assets	\$ 210,399	\$ 202,151

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Property, plant and equipment, net

Property, plant and equipment, net consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Land	\$ 12,155	\$ 12,378
Buildings and improvements (1)	411,594	397,087
Machinery and equipment (1)	1,815,151	1,649,363
Office equipment and furniture	141,751	134,268
Leasehold improvements	50,392	50,096
Construction in progress	41,909	154,497
Stored assets (2)	139,507	155,389
Property, plant and equipment, gross	2,612,459	2,553,078
Less: accumulated depreciation	(1,282,405)	(1,133,090)
Property, plant and equipment, net	\$ 1,330,054	\$ 1,419,988

In June 2015, we reclassified \$15.2 million and \$2.5 million from "Assets held for sale" to "Building and (1)improvements" and "Machinery and equipment," respectively, as these assets no longer met the criteria to be classified as held for sale.

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. During the nine months ended September 30, 2015, we transferred \$15.9 million of stored assets to our manufacturing facility in Perrysburg, Ohio (2)for use in the production of solar modules. As the remaining stored assets are neither in the condition nor 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 our long-lived assets may not be recoverable. We ceased the capitalization of interest on our stored assets once they were physically received from the related machinery and equipment vendors.

Depreciation of property, plant and equipment was \$61.3 million and \$185.4 million for the three and nine months ended September 30, 2015, respectively, and \$59.7 million and \$183.1 million for the three and nine months ended September 30, 2014, respectively.

PV solar power systems, net

PV solar power systems, net consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
PV solar power systems, gross	\$ 96,532	\$ 47,727
Accumulated depreciation	(3,112)	(1,334)
PV solar power systems, net	\$ 93,420	\$ 46,393

In September 2015, we placed \$50.7 million of projects into service, net of investment tax credits, including our 30 MW AC Barilla Solar project in Pecos County, Texas and various other projects in India and Australia. Depreciation of PV solar power systems was \$0.6 million and \$1.8 million for the three and nine months ended September 30,

2015, respectively, and \$0.6 million and \$0.7 million for the three and nine months ended September 30, 2014, respectively.

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Capitalized interest

The cost of constructing facilities, equipment, and project assets includes interest costs incurred during the assets' construction period. The components of interest expense and capitalized interest were as follows during the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Interest cost incurred	\$(5,697	) \$(2,415	) \$(13,923	) \$(7,451
Interest cost capitalized — property, plant and equipment	290	544	1,152	1,566
Interest cost capitalized — project assets	3,632	1,782	9,976	4,456
Interest expense, net	\$(1,775	) \$(89	) \$(2,795	) \$(1,429

Project assets and deferred project costs

Project assets primarily consist of costs relating to solar power projects in various stages of development that are capitalized prior to entering into a definitive sales agreement for the projects, including projects that have begun commercial operation under power purchase agreements (“PPAs”) and are actively marketed and intended to be sold. These project related costs include costs for land, development, and construction of a PV solar power system. Development costs may 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 and deferred project costs to cost of sales after each respective project 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 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 are expected within the next 12 months.

If a project 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 earliest of the closing of the sale of such project, our decision to temporarily hold such project, or one year from the project's commercial operations date. Any income generated by a 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, 2015 and December 31, 2014 (in thousands):

	September 30,	December 31,
	2015	2014
Project assets — land	\$ 27,229	\$ 20,170

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Project assets — development costs including project acquisition costs	383,210	359,203
Project assets — construction costs	619,997	408,402
Project assets	1,030,436	787,775
Deferred project costs — current	98,421	29,354
Deferred project costs — noncurrent	—	22,573
Deferred project costs	98,421	51,927
Total project assets and deferred project costs	\$ 1,128,857	\$ 839,702

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Other assets

Other assets consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Notes receivable (1)	\$ 12,111	\$ 12,096
Income taxes receivable	4,058	4,850
Deferred rent	23,433	23,823
Other	25,571	20,901
Other assets	\$	