FIRST SOLAR, INC.
Form 10-Q
October 31, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark one)

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

For the quarterly period ended September 27, 2008

or

o **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 þ No o
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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(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 o No þ

As of October 24, 2008 there were 81,089,850 shares of the registrant s common stock, par value $0.001, outstanding.

FIRST SOLAR, INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 27, 2008
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 27, 2008 and September 29, 2007	3
Condensed Consolidated Balance Sheets as of September 27, 2008 and December 29, 2007	4
Condensed Consolidated Statements of Cash Flows for the nine months ended September 27, 2008 and September 29, 2007	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosures About Market Risk	32
Item 4. Controls and Procedures	34
Part II. Other Information	
Item 1. Legal Proceedings	35
Item 1A. Risk Factors	35
Item 5. Other Information	35
Item 6. Exhibits	35
Signature	36
Exhibit Index	37
EX-10.01	
EX-10.02	
EX-31.01	
EX-31.02	
EX-32.01	

Table of Contents

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 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales	$ 348,694	$ 159,007	$ 812,650	$ 303,179
Cost of sales	153,251	76,967	368,183	162,726
Gross profit	195,443	82,040	444,467	140,453
Operating expenses:				
Research and development	9,952	3,854	22,437	10,675
Selling, general and administrative	48,995	27,082	121,292	58,057
Production start-up	6,344	2,805	23,727	12,802
Total operating expenses	65,291	33,741	167,456	81,534
Operating income	130,152	48,299	277,011	58,919
Foreign currency gain (loss)	(1,889)	965	(468)	716
Interest income	5,323	5,298	16,931	13,199
Interest expense, net	(127)	(647)	(131)	(2,131)
Other income (expense), net	(360)	(266)	(1,179)	(881)
Income before income taxes	133,099	53,649	292,164	69,822
Income tax benefit (expense)	(33,830)	(7,615)	(76,605)	25,658
Net income	$ 99,269	$ 46,034	$ 215,559	$ 95,480
Net income per share:				
Basic	$ 1.23	$ 0.61	$ 2.70	$ 1.30
Diluted	$ 1.20	$ 0.58	$ 2.63	$ 1.24
Weighted-average number of shares used in per share calculations:				
Basic	80,430	75,666	79,789	73,537
Diluted	82,436	79,088	82,016	76,856

See accompanying notes to these condensed consolidated financial statements.

Table of Contents

FIRST SOLAR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 27, 2008	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 581,779	$ 404,264
Marketable securities current	133,371	232,686
Accounts receivable, net	41,474	18,165
Inventories	126,469	40,204
Deferred project costs	9,079	2,643
Economic development funding receivable	897	35,877
Deferred tax asset, net current	3,716	3,890
Prepaid expenses and other current assets	65,591	64,780
Total current assets	962,376	802,509
Property, plant and equipment, net	750,477	430,104
Deferred tax asset, net noncurrent	54,852	51,811
Marketable securities noncurrent	14,272	32,713
Restricted investments	29,924	14,695
Goodwill	33,829	33,449
Other assets noncurrent	14,120	6,031
Total assets	$ 1,859,850	$ 1,371,312
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 36,691	$ 26,441
Income tax payable	70,726	24,487
Accrued expenses	146,913	81,438
Short-term debt		24,473
Current portion of long-term debt	26,691	14,836
Other current liabilities	16,610	14,803
Total current liabilities	297,631	186,478
Accrued collection and recycling liabilities	28,083	13,079
Long-term debt	140,808	68,856
Other liabilities noncurrent	8,158	5,632
Total liabilities	474,680	274,045
Stockholders equity:		
Common stock, $0.001 par value per share; 500,000,000 shares authorized; 81,086,151 and 78,575,211 shares issued and outstanding at September 27, 2008 and December 29, 2007, respectively	81	79
Additional paid-in capital	1,144,678	1,079,775

Accumulated earnings	228,454	12,895
Accumulated other comprehensive income	11,957	4,518
Total stockholders equity	1,385,170	1,097,267
Total liabilities and stockholders equity	$ 1,859,850	$ 1,371,312

See accompanying notes to these condensed consolidated financial statements.

Table of Contents

FIRST SOLAR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Cash flows from operating activities:		
Cash received from customers	$ 779,209	$ 309,837
Cash paid to suppliers and employees	(513,583)	(172,169)
Interest received	15,306	7,803
Interest paid, net of amounts capitalized	(3,003)	(2,131)
Income tax	(3,202)	(18,191)
Excess tax benefit from share-based compensation arrangements	(13,736)	(18,600)
Other	(1,179)	(304)
Net cash provided by operating activities	259,812	106,245
Cash flows from investing activities:		
Purchases of property, plant and equipment	(330,610)	(145,635)
Purchase of marketable securities	(274,262)	(726,581)
Proceeds from maturities of marketable securities	373,367	3,450
Proceeds from sales of marketable securities	49,450	158,945
Increase in restricted investments	(15,254)	(5,908)
Net cash used in investing activities	(197,309)	(715,729)
Cash flows from financing activities:		
Proceeds from issuance of common stock	14,107	372,714
Repayment of long-term debt	(34,833)	(29,966)
Proceeds from issuance of debt, net of issuance costs	94,090	48,160
Excess tax benefit from share-based compensation arrangements	13,736	18,600
Proceeds from economic development funding	35,661	6,601
Other financing activities	(5)	(3)
Net cash provided by financing activities	122,756	416,106
Effect of currency exchange rate changes on cash and cash equivalents	(7,744)	2,439
Net increase (decrease) in cash and cash equivalents	177,515	(190,939)
Cash and cash equivalents, beginning of the period	404,264	308,092
Cash and cash equivalents, end of the period	$ 581,779	$ 117,153
Supplemental disclosure of noncash investing and financing activities:		
Property, plant and equipment acquisitions funded by liabilities	$ 31,468	$ 16,677

See accompanying notes to these condensed consolidated financial statements.

Table of Contents

FIRST SOLAR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Nine Months Ended September 27, 2008

Note 1. Basis of Presentation

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. Accordingly, these interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles 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 27, 2008 are not necessarily indicative of the results that may be expected for the year ending December 27, 2008, or for any other period. The balance sheet at December 29, 2007 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 29, 2007 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Fiscal periods. We report our results of operations using a 52 or 53 week fiscal year, which ends on the Saturday on or before December 31. Our fiscal quarters end on the Saturday closest to the end of the applicable calendar quarter. Fiscal 2008 will end on December 27, 2008 and will consist of 52 weeks.

Note 2. Summary of Significant Accounting Policies

Our significant accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 29, 2007 filed with the Securities and Exchange Commission. Our significant accounting policies reflect the adoption of Statement of Financial Accounting Standards No. (SFAS) 157, *Fair Value Measurements* in the first quarter of fiscal 2008.

On December 30, 2007, the beginning of our fiscal year 2008, we adopted SFAS 157 for our financial assets and financial liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands the financial statement disclosure requirements for fair value measurements. See Note 9 to our condensed consolidated financial statements for more information about our adoption of SFAS 157 for our financial assets and financial liabilities and about our accounting policies related to fair value measurement. Our adoption of SFAS 157 did not have a material impact on our financial position, results of operations or cash flows.

Note 3. Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS 141R, *Business Combinations,* which replaces SFAS 141. SFAS 141R requires most assets acquired and liabilities assumed in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair value as of the date of the acquisition. SFAS 141R also requires that acquisition-related costs and restructuring costs be recognized separately from the business combination. SFAS 141R will be effective for us for the fiscal year 2009 and will apply to any business combinations that we might enter into after December 27, 2008.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements.* SFAS 160 amends previous accounting literature to establish new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 will become effective for us as of the beginning of fiscal 2009. We have not yet evaluated the impact, if any, that the adoption of SFAS 160 will have on our financial position, results of operations or cash flows.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 (FSP 157-2), *Effective Date of FASB Statement No. 157*. FSP 157-2 deferred the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are

Table of Contents

recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. As a result of FSP 157-2, we will adopt SFAS 157 for our nonfinancial assets and nonfinancial liabilities beginning with the first interim period of our fiscal year 2009. We are currently evaluating the impact of the adoption of SFAS 157 for our nonfinancial assets and nonfinancial liabilities on our financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS 161, *Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133.* SFAS 161 expands quarterly disclosure requirements in SFAS 133 about an entity s derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. We do not expect SFAS 161 to have a material impact on our financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and a prioritized framework for selecting the principles to be used for preparation of the financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 replaces the U.S. GAAP hierarchy specified in the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* SFAS 162 is effective 60 days following the SEC s approval on September 16, 2008 of the Public Company Oversight Board amendments to remove the U.S. GAAP hierarchy from the auditing standards. As a result, we will adopt SFAS 162 in the fourth quarter of our fiscal year 2008. We do not expect SFAS 162 to have a material impact on our financial position, results of operations or cash flows.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures About Credit Derivatives and Certain Guarantees.* FSP FAS 133-1 and FIN 45-4 is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance and cash flows of the sellers of credit derivatives. FSP FAS 133-1 and FIN 45-4 is effective for fiscal years beginning after November 15, 2008. We do not expect FSP FAS 133-1 and FIN 45-4 to have a material impact on our financial position, results of operations or cash flows.

In October 2008, the FASB issued FSP FAS 157-3, *Determining Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* FSP FAS 157-3 provides guidance and illustrates key considerations for determining fair value in markets that are not active. FSP FAS 157-3 is effective upon issuance and must be applied to all periods for which financial statements have not been issued. The adoption of FSP FAS 157-3 did not have any impact on our financial position, results of operations or cash flows.

Note 4. Goodwill and Intangible Assets

On November 30, 2007, we acquired 100% of the outstanding membership interests of Turner Renewable Energy, LLC. Under the purchase method of accounting, we allocated $33.4 million to goodwill as of December 29, 2007, which represents the excess of the purchase price over the fair value of the identifiable net tangible and intangible assets of Turner Renewable Energy, LLC.

The changes in the carrying amount of goodwill for the nine months ended September 27, 2008 are as follows (in thousands):

Balance as of December 29, 2007	$ 33,449
Goodwill adjustments	380
Balance as of September 27, 2008	$ 33,829

The goodwill adjustment of $0.4 million, which we made in the first quarter of 2008, was primarily the result of adjustments made to the opening balance sheet for acquisition-related intangible assets and related deferred taxes.

SFAS 142, *Goodwill and Other Intangible Assets* requires us to test goodwill for impairment at least annually or sooner if events or changes in circumstances between scheduled annual tests indicate that goodwill may be impaired. We perform our goodwill impairment tests in the fourth fiscal quarter.

In addition, with the acquisition of Turner Renewable Energy, LLC in November 2007, we identified two intangible assets, which represent customer contracts already in progress at the time of acquisition and future customer contracts not yet started. We amortize these costs using the percentage of completion method.

Table of Contents

Information regarding our acquisition-related intangible assets that are being amortized is as follows (in thousands):

	As of December 29, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Customer contracts in progress at the acquisition date	$ 170	$ 28	$ 142
Customer contracts executed after the acquisition date	1,620		1,620
Total	$1,790	$ 28	$1,762

During the three months ended June 28, 2008, we concluded that the carrying amount of certain customer intangible assets would not be realized due to our not pursuing certain projects which did not fit our overall business strategy. We recognized the resulting impairment loss of $1.1 million in cost of sales during that period.

	As of September 27, 2008 (Unaudited)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Customer contracts in progress at the acquisition date	$ 62	$ 51	$ 11
Customer contracts executed after the acquisition date	394	56	338
Total	$456	$ 107	$349

Amortization expense for acquisition-related intangible assets was $22,000 for the three months ended September 27, 2008 and $107,000 for the nine months ended September 27, 2008.

Note 5. Economic Development Funding

On July 26, 2006, we were approved to receive taxable investment incentives *(Investitionszuschüsse)* of approximately 21.5 million ($31.4 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00) from the State of Brandenburg, Germany. These funds will reimburse us for certain costs we incurred building our plant in Frankfurt/Oder, Germany, including costs for the construction of buildings and the purchase of machinery and equipment. Receipt of these incentives is conditional upon the State of Brandenburg having sufficient funds allocated to this program to pay the reimbursements we claim. In addition, we are required to operate our facility for a minimum of five years and employ a specified number of associates during this period. Our incentive approval expires on December 31, 2009. As of September 27, 2008, we had received cash payments of 20.5 million ($29.9 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00) under this program, and we had accrued an additional 0.6 million ($0.9 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00) that we are eligible to receive under this program based on qualifying expenditures that we had incurred through that date. As of September 27, 2008, there were no additional investment incentives that we were eligible to receive under this program.

Note 6. Cash and Investments

Cash, cash equivalents and marketable securities consisted of the following at September 27, 2008 and December 29, 2007 (in thousands):

	September 27, 2008	December 29, 2007

	(**unaudited**)	
Cash and cash equivalents:		
Cash	$ 450,296	$ 157,326
Cash equivalents:		
Federal agency debt	19,956	172,246
Foreign agency debt	21,421	
Corporate debt securities	9,982	41,304
Money market mutual fund	80,124	31,958
Municipal debt		1,430
Total cash and cash equivalents	581,779	404,264

Table of Contents

	September 27, 2008 (unaudited)	December 29, 2007
Marketable securities:		
Federal agency debt	118,443	94,899
Foreign agency debt	8,948	
Corporate debt securities	20,252	58,921
Municipal debt		111,579
Total marketable securities	147,643	265,399
Total cash, cash equivalents and marketable securities	$ 729,422	$ 669,663

We have classified our marketable securities as available-for-sale. Accordingly, we record them at fair value and record net unrealized gains and losses as part of other comprehensive income until realized. We report realized gains and losses on the sale of our marketable securities in earnings, computed using the specific identification method. During the three and nine months ended September 27, 2008, we realized $0.2 million and $0.6 million, respectively, in gains and $0.3 million and $0.4 million, respectively, in losses on our marketable securities. See Note 9 to our condensed consolidated financial statements for information about the fair value measurement of our marketable securities.

All of our available-for-sale marketable securities are subject to a periodic impairment review. We consider our marketable debt securities to be impaired when a significant decline in the issuer s credit quality is likely to have a significant adverse effect on the fair value of the investment. Investments identified as being impaired are subject to further review to determine if the investment is other than temporarily impaired, in which case the investment is written down to its impaired value and a new cost basis is established.

A summary of available-for-sale marketable securities by major security type as of September 27, 2008 is as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Federal agency debt	$118,452	$ 43	$ 52	$118,443
Foreign agency debt	8,979	1	32	8,948
Corporate debt securities	20,400	7	155	20,252
Total	$147,831	$ 51	$ 239	$147,643

Contractual maturities of our available-for-sale marketable securities as of September 27, 2008 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
One year or less	$133,478	$ 33	$ 140	$133,371
One year to two years	14,353	18	99	14,272

Total	$147,831	$ 51	$ 239	$147,643

The net unrealized loss on our investments as of September 27, 2008 was $0.2 million. We typically invest in highly-rated securities with low probabilities of default. Our investment policy requires investments to be rated single A or better, limits the types of acceptable investments, limits the concentration as to security holder and limits the duration of the investment. The recent and unprecedented disruption in the current credit markets has had a significant adverse impact on a number of financial institutions. However, as of September 27, 2008, the investments that we hold in our marketable securities portfolio have not been materially impacted by the current credit environment and we do not believe that the investments that we hold in our marketable securities portfolio will be materially impacted in the near future.

Table of Contents

Note 7. Consolidated Balance Sheet Details

Accounts receivable, net

Accounts receivable, net consisted of the following at September 27, 2008 and December 29, 2007 (in thousands):

	September 27, 2008	December 29, 2007
Accounts receivable, gross	$ 41,515	$ 18,170
Allowance for doubtful accounts	(41)	(5)
Accounts receivable, net	$ 41,474	$ 18,165

Inventories

Inventories consisted of the following at September 27, 2008 and December 29, 2007 (in thousands):

	September 27, 2008	December 29, 2007
Raw materials	$ 94,420	$ 22,874
Work in process	7,100	2,289
Finished goods	24,949	15,041
Total inventories	$ 126,469	$ 40,204

Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following at September 27, 2008 and December 29, 2007 (in thousands):

	September 27, 2008	December 29, 2007
Prepaid expenses	$ 7,024	$ 5,493
Prepaid supplies	12,316	3,646
Capitalized equipment spares	8,456	997
Prepaid taxes current	1,025	13,042
Pending sale of marketable securities		28,600
Derivative instruments current	15,331	104
Costs and estimated earnings in excess of billings	8,544	6
Other current assets	12,895	12,892
Total prepaid expenses and other current assets	$ 65,591	$ 64,780

Property, plant and equipment, net

Property, plant and equipment, net consisted of the following at September 27, 2008 and December 29, 2007 (in thousands):

	September 27, 2008	December 29, 2007

Buildings and improvements	$	108,574	$	44,679
Machinery and equipment		436,425		170,125
Office equipment and furniture		17,795		7,365
Leasehold improvements		11,323		4,046
Depreciable property, plant and equipment, gross		574,117		226,215
Accumulated depreciation		(82,003)		(43,134)
Depreciable property, plant and equipment, net		492,114		183,081
Land		4,944		3,046
Construction in progress		253,419		243,977
Property, plant and equipment, net	$	750,477	$	430,104

Depreciation of property, plant and equipment was $16.9 million and $6.6 million for the three months ended September 27, 2008 and September 29, 2007, respectively and was $40.4 million and $17.8 million for the nine months ended September 27, 2008 and September 29, 2007, respectively.

Table of Contents

We incurred and capitalized interest cost (into our property, plant and equipment) as follows during the three and nine months ended September 27, 2008 and September 29, 2007 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Interest cost incurred	$ 2,267	$ 1,742	$ 5,079	$ 4,264
Interest capitalized	(2,140)	(1,095)	(4,948)	(2,133)
Interest expense, net	$ 127	$ 647	$ 131	$ 2,131

Accrued expenses

Accrued expenses consisted of the following at September 27, 2008 and December 29, 2007 (in thousands):

	September 27, 2008	December 29, 2007
Product warranty liability	$ 9,858	$ 7,276
Accrued compensation and benefits	24,766	21,862
Accrued property, plant and equipment	54,226	35,220
Accrued inventory	28,952	4,811
Accrued subcontractor services and materials	5,294	
Accrued taxes other	3,362	348
Other accrued expenses	20,455	11,921
Total accrued expenses	$ 146,913	$ 81,438

Other current liabilities

Other current liabilities consisted of the following at September 27, 2008 and December 29, 2007 (in thousands):

	September 27, 2008	December 29, 2007
Derivative instruments current	$ 6,065	$ 3,579
Other current liabilities	10,545	11,224
Total other current liabilities	$ 16,610	$ 14,803

Note 8. Derivative Financial Instruments

As a global company, we are exposed in the normal course of business to interest rate risk and foreign currency risk that could affect our net assets, financial position and results of operations. It is our policy to use derivative financial instruments to minimize the risks that are associated with our operating activities and the associated financing requirements. We use derivative financial instruments exclusively to hedge actual or forecasted transactions. Our exposure to credit risk at any point in time is represented in the net fair value of the derivative contracts reported as assets. Credit risk with respect to derivative instruments arises from the potential failure of a counter party to perform according to the terms of the contract. We do not use derivative financial instruments for speculative or trading purposes. Our use of derivative financial instruments is subject to strict internal controls based on centrally defined mechanisms and guidelines.

The various risk classes and risk management systems are described below. See Note 9 to our condensed consolidated financial statements for information about the fair value measurement of our derivative financial instruments.

Interest Rate Risk

We use interest rate swap agreements to mitigate our exposure to interest rate fluctuations associated with certain of our debt instruments; we do not use interest rate swap agreements for speculative or trading purposes. We have interest rate swaps with a financial institution that effectively converts to fixed rates the floating variable rate of the Euro Interbank Offered Rate (Euribor) on certain drawdowns taken on the term loan portion of our credit facility with a consortium of banks. These interest rate swap agreements are required under the credit facility agreement. As of September 27, 2008, the total notional value of the interest rate

Table of Contents

swaps was 41.4 million ($60.4 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00). The weighted average interest rate for the interest rate swaps was 4.12%.

The notional amounts of the interest rate swaps are scheduled to decline in correspondence to our scheduled principal payments on the hedged term loan drawdowns. These derivative financial instruments qualified for accounting as cash flow hedges in accordance with SFAS 133*, Accounting for Derivative Instruments and Hedging Activities,* and we designated them as such. As a result, we classified the aggregate fair value of the interest rate swap agreements, which was $0.8 million at September 27, 2008, with other assets on our balance sheet. We record changes in that fair value in other comprehensive income. We assessed the interest rate swap agreements as highly effective cash flow hedges as of September 27, 2008.

Foreign Currency Exchange Risk

Cash Flow Exposure

We have forecasted future cash flows, including revenues and expenses, denominated in currencies other than the relevant entity s functional currency. Our primary cash flow exposures are customer collections and vendor payments. Changes in the relevant entity s functional currency value will cause fluctuations in the cash flows we expect to receive when these cash flows are realized or settled. We may enter into foreign exchange forward contracts or other derivatives to hedge the value of a portion of these cash flows. We account for these foreign exchange contracts as cash flow hedges. The effective portion of the derivative s gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified into earnings when the hedged transaction is settled.

We purchased forward contracts to hedge the exchange risk on forecasted cash flows denominated in euro. As of September 27, 2008, the unrealized gain of these forward contracts was $12.9 million. As of September 27, 2008, the total notional value of the forward contracts was 346.6 million ($506.0 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00). The weighted average forward exchange rate for these contracts is $1.50/ 1.00.

The foreign exchange contracts that hedge our forecasted future cash flows qualified for accounting as cash flow hedges in accordance with SFAS 133, and we designated them as such. As a result, we report the aggregate fair value on our balance sheet, and we record changes in that fair value in other comprehensive income. We determined that these derivative financial instruments were highly effective cash flow hedges as of September 27, 2008.

Transaction Exposure

We have certain assets and liabilities, primarily receivables, investments and accounts payable (including inter-company transactions) that are denominated in currencies other than the relevant entity s functional currency. In certain circumstances, changes in the functional currency value of these assets and liabilities create fluctuations in our reported consolidated financial position, results of operations and cash flows. We may enter into foreign exchange forward contracts or other instruments to minimize the short-term foreign currency fluctuations on these assets and liabilities. The gains and losses on the foreign exchange forward contracts offset all or part of the transaction gains and losses that we recognize in earnings on the related foreign currency receivables, investments and payables.

In 2007 and during the three months ended September 27, 2008, we purchased forward foreign exchange contracts to hedge balance sheet exposure related to transactions with third parties. We recognize gains or losses from the fluctuation in foreign exchange rates and the valuation of these hedging contracts in foreign currency gain (loss) on our consolidated statements of operations. As of September 27, 2008, the total notional value of foreign exchange contracts to purchase Euros with U.S. dollars was 82.9 million ($121.0 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00) and the total notional value of foreign exchange contracts to sell Euros for U.S. dollars was 45.0 million ($65.7 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00). As of September 27, 2008, the unrealized loss of these forward contracts was $6.1 million. These foreign exchange forward contracts have maturities of 24 months or less.

Table of Contents

Credit Risk

We have certain financial and derivative instruments that potentially subject us to credit risk. These consist primarily of cash, cash equivalents, marketable securities, interest swap agreements and forward foreign exchange contracts. We are exposed to credit losses in the event of nonperformance by the counter parties to our financial and derivative instruments. We place cash, cash equivalents, marketable securities, interest rate swap agreements and forward foreign exchange contracts with various high-quality financial institutions, and exposure is limited at any one institution. We continuously evaluate the credit standing of our counter party financial institutions.

In addition, we have certain restricted investments, which are exposed to credit risk. These consist primarily of restricted investments, which are held by a financial services company to fund our estimated future product collection and recycling costs. As of September 27, 2008 our restricted investments with a subsidiary of this financial services company were $25.0 million. In October 2008, we entered into a credit default swap (CDS) with J.P. Morgan Chase NA, New York to protect our investment from a significant pre-defined credit event related to the parent financial services company. Under a CDS, a third party assumes for a fee, a portion of the credit risk related to the investment. The CDS we entered into provides protection for losses in the event of a pre-defined credit event of the parent financial services company in the amount of $25.0 million.

Note 9. Fair Value Measurement

On December 30, 2007, the beginning of our fiscal year 2008, we adopted SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands financial statement disclosure requirements for fair value measurements. Our adoption of SFAS 157 was limited to our financial assets and financial liabilities, as permitted by FSP 157-2. We do not have any nonfinancial assets or nonfinancial liabilities that we recognize or disclose at fair value in our financial statements on a recurring basis. The implementation of the fair value measurement guidance of SFAS 157 did not result in any changes to the carrying values of our financial instruments on our opening balance sheet on December 30, 2007 for fiscal year 2008.

SFAS 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) on the measurement date in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. SFAS 157 specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level 1 Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2 Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices from markets that are not active for assets or liabilities that are identical or similar to the assets or liabilities being measured. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3 Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect our own assumptions about the assumptions that market participants would use in pricing an asset or liability.

When available, we use quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, we measure fair value using valuation techniques that use, when possible, current market-based or independently- sourced market parameters, such as interest rates and currency rates. 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 on our balance sheet at fair value on a recurring basis:

Cash Equivalents. As of September 27, 2008, our cash equivalents consisted of federal and foreign agency debt, corporate debt securities and money market mutual funds. We value our 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 or Level 2. We consider the effect of our

counterparties credit standings in our valuations of our marketable securities holdings.

Marketable securities. As of September 27, 2008, our marketable securities consisted of federal and foreign agency debt and corporate debt securities. We value our marketable securities using quoted prices for securities with similar characteristics

Table of Contents

and other observable inputs (such as interest rates observable at commonly quoted intervals), and accordingly, we classify the valuation techniques that use these inputs as Level 2. We consider the effect of our counterparties credit standings in our valuations of our marketable securities holdings.

Derivative assets and liabilities. Our derivative assets and liabilities consist of foreign exchange forward contracts involving major currencies and interest rate swaps involving a benchmark interest rate. Since our derivative assets and liabilities are not traded on an exchange, we value them using valuation models. Interest rate yield curves and foreign exchange rates are the significant inputs into these valuation models. These inputs are observable in active markets over the terms of the instruments we hold, and accordingly, we classify these valuation techniques as Level 2 in the hierarchy. We consider the effect of our own credit standing and that of our counterparties in our valuations of our derivative financial instruments.

As of September 27, 2008, information about inputs into the fair value measurements of our assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows (in thousands):

		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:				
Federal agency debt	$ 19,956	$	$ 19,956	$
Foreign agency debt	21,421		21,421	
Corporate debt securities	9,982		9,982	
Money market mutual funds	80,124	80,124		
Marketable securities:				
Federal agency debt	118,443		118,443	
Foreign agency debt	8,948		8,948	
Corporate debt securities	20,252		20,252	
Derivative assets	15,971		15,971	
Total assets	$295,097	$80,124	$214,973	$
Liabilities:				
Derivative liabilities	$ 6,065	$	$ 6,065	$

Note 10. Debt

Our long-term debt at September 27, 2008 and December 29, 2007 consisted of the following (in thousands):

	September 27,	**December 29,**

	2008	2007
Euro denominated loan, variable interest Euribor plus 1.6%, due 2008 through 2012	$ 60,633	$ 67,761
2.25% loan, due 2006 through 2015	12,115	13,226
0.25% 3.25% loan, due 2007 through 2009	1,945	3,334
Euro denominated loan, variable interest Euribor plus 0.55%, due 2008 through 2015	47,761	
Euro denominated 4.54% loan, due 2008 through 2015	47,761	
Capital lease obligations	6	9
	170,221	84,330
Less unamortized discount	(2,722)	(638)
Total long-term debt	167,499	83,692
Less current portion	(26,691)	(14,836)
Noncurrent portion	$ 140,808	$ 68,856

We had outstanding borrowings of $24.5 million at December 29, 2007, which we classified as short-term debt. In February 2008, we repaid the full amount of our short-term debt, which related to our bridge loan with a consortium of banks.

Table of Contents

On May 6, 2008, in connection with the plant expansion at our Malaysian manufacturing center, First Solar Malaysia Sdn. Bhd. (FS Malaysia), our indirect wholly owned subsidiary entered into an export financing facility agreement (Facility Agreement) with IKB Deutsche Industriebank AG (IKB) as arranger NATIXIS Zweigniederlassung Deutschland (NZD) as facility agent and original lender, AKA Ausfuhrkredit-Gesellschaft mbH (AKA), as original lender and NATIXIS Labuan Branch (NLB) as security agent. Pursuant to the terms of the Facility Agreement, the lenders will furnish up to approximately 134.0 million ($195.6 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00) of credit facilities consisting of the following:

(1) Five fixed-rate euro-denominated term loan facilities, which have the following maximum aggregate amounts:

a) 16.9 million ($24.7 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00);

b) 16.3 million ($23.8 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00);

c) 16.3 million ($23.8 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00);

d) 16.3 million ($23.8 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00);

e) 1.2 million ($1.8 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00); and

(2) Five floating-rate euro-denominated term loan facilities, which have the following maximum aggregate amounts:

a) 16.9 million ($24.7 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00);

b) 16.3 million ($23.8 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00);

c) 16.3 million ($23.8 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00);

d) 16.3 million ($23.8 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00); and

e) 1.2 million ($1.8 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00).

The loans under the fixed rate credit facilities will bear interest on the outstanding unpaid principal amount at an annual rate of 4.54%. The loans under the floating rate credit facilities will bear interest on the outstanding unpaid principal amount at Euribor plus a margin of 0.55%.

These credit facilities are intended to be used by FS Malaysia for the purpose of (1) partially financing the purchase of certain equipment to be used at our Malaysian manufacturing center and (2) financing fees to be paid to Euler Hermes Kreditversicherungs-AG (Euler-Hermes), the German Export Credit Agency of Hamburg, Federal Republic of Germany, which will guaranty 95% of FS Malaysia s obligations related to the Facility Agreement (Hermes Guaranty). In addition, FS Malaysia s obligations related to the Facility Agreement are guaranteed, on an unsecured basis, by First Solar, Inc., pursuant to a guaranty agreement described below.

The Facility Agreement requires FS Malaysia to make 14 equal semi-annual repayments of the total principal borrowed under each of the credit facilities listed above. The first of these repayments commences on the earlier of (1) the day that is nine months after the date that the Malaysian manufacturing center plant to which the credit facility relates becomes ready for operation and (2) a date specified for each credit facility, the earliest of which is September 30, 2008 for the credit facilities listed as (1) a) and (2) a) above.

FS Malaysia may voluntarily cancel commitments of the credit facilities and may make prepayments of amounts outstanding under the credit facilities, in whole or in part, subject to minimum prepayment requirements and the payment of break costs. Subject to a limited exception, in the event that the Euler-Hermes Guaranty is (1) fully or partially withdrawn, or otherwise ceases to be in full force and effect or (2) repudiated by Euler-Hermes (or its intention to repudiate is evidenced in writing), or if any of the obligations of Euler-Hermes under the Euler-Hermes Guaranty ceases to be legal, valid, binding or in full force and effect, the loans made by any lender under any of the credit facilities may, at the direction of the lender, be declared immediately due and payable.

15

Table of Contents

FS Malaysia is obligated to pay commitment fees at an annual rate of 0.375% on the unused portions of the fixed rate credit facilities and at an annual rate of 0.350% on the unused portions of the floating rate credit facilities. In addition, FS Malaysia is obligated to pay certain underwriting, management and agency fees in connection with the credit facilities.

In connection with the Facility Agreement, First Solar, Inc. entered into a first demand guaranty agreement dated May 6, 2008 in favor of IKB, NZD, NLB and the other lenders under the Facility Agreement. As stated above, FS Malaysia s obligations related to the Facility Agreement are guaranteed, on an unsecured basis, by First Solar pursuant to this guaranty agreement.

In connection with the Facility Agreement, all of FS Malaysia s obligations related to the Facility Agreement are secured by a first party, first legal charge over the equipment financed by the credit facilities and the other documents, contracts and agreements related to that equipment. Also in connection with the Facility Agreement, any payment claims of First Solar, Inc. against FS Malaysia are subordinated to the claims of IKB, NZD, NLB and the other lenders under the Facility Agreement.

The Facility Agreement contains various financial covenants with which we must comply with, such as debt to equity ratios, total leverage ratios, interest coverage ratios and debt service coverage ratios. The Facility Agreement also contains various customary non-financial covenants which FS Malaysia must comply with, including, submitting various financial reports and business forecasts to the lenders, maintaining adequate insurance, complying with applicable laws and regulations, restrictions on FS Malaysia s ability to sell or encumber assets and make loan guarantees to third parties.

As of September 27, 2008, we had outstanding borrowings of 65.3 million ($95.3 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00) under the Facility Agreement.

Our debt-financing agreements bear interest at the Euro Interbank Offered Rate (Euribor). Euribor is the primary interbank lending rate within the Euro zone, with maturities ranging from one week to one year. A disruption of the credit environment as currently experienced could negatively impact interbank lending and therefore negatively impact the Euribor rate. An increase in the Euribor rate would increase our cost of borrowing.

Note 11. Commitments and Contingencies

Financial guarantees

In the normal course of business, we occasionally enter into agreements with third parties where we guarantee the performance of our subsidiaries related to certain service contracts, which may include services such as development, engineering, procurement of permits and equipment, construction management and monitoring and maintenance. These agreements meet the definition of a guarantee according to FASB Interpretation No. (FIN) 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Other*. As of September 27, 2008, none of these guarantees are material to our financial position.

Product warranties

We offer warranties on our products and record an estimate of the associated liability based on the number of solar modules under warranty at customer locations, our historical experience with warranty claims, our monitoring of field installation sites, our in-house testing of our solar modules and our estimated per-module replacement cost.

Product warranty activity during the three and nine months ended September 27, 2008 and September 29, 2007 was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Product warranty liability, beginning of period	$10,865	$ 4,050	$ 7,276	$ 2,764
Accruals for new warranties issued (warranty expense)	1,776	1,554	5,619	3,103
Settlements	(45)	(176)	(53)	(188)

Change in estimate of warranty liability	(2,738)	68	(2,984)	(183)
Product warranty liability, end of period	$ 9,858	$ 5,496	$ 9,858	$ 5,496

Table of Contents

Commitments

As of September 27, 2008, we had the following four outstanding commercial commitments in the form of letters of credit and bank guarantees: MYR 4.0 million dated June 2008 for an energy supply agreement ($1.2 million at the balance sheet close rate on September 27, 2008 of $0.29/MYR1.00); MYR 3.0 million dated September 2008 for Malaysian custom and excise tax ($0.9 million at the balance sheet close rate on September 27, 2008 of $0.29/MYR1.00); MYR 2.2 million dated December 2007 for an energy supply agreement ($0.6 million at the balance sheet close rate on September 27, 2008 of $0.29/MYR1.00); and $1.3 million dated January 2008 for a sales and purchase agreement.

Note 12. Share-Based Compensation

We measure share-based compensation cost at the grant date based on the fair value of the award and recognize this cost as an expense over the grant recipients requisite service periods, in accordance with SFAS 123(R). The share-based compensation expense that we recognized in our consolidated statements of operations for the three and nine months ended September 27, 2008 and September 29, 2007 was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Share-based compensation expense included in:				
Cost of sales	$ 3,776	$ 2,585	$ 9,146	$ 6,505
Research and development	1,688	940	4,154	3,593
Selling, general and administrative	11,289	12,472	28,968	18,210
Production start-up	558	433	1,359	898
Total share-based compensation expense	$17,311	$ 16,430	$43,627	$ 29,206

The increase in share-based compensation expense was primarily the result of new awards.

The following table presents our share-based compensation expense by type of award for the three and nine months ended September 27, 2008 and September 29, 2007 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Stock options	$ 3,819	$ 5,940	$13,554	$ 18,600
Restricted stock units	13,564	10,657	30,009	10,699
Unrestricted stock	81	58	244	216
Net amount absorbed into inventory	(153)	(225)	(180)	(309)
Total share-based compensation expense	$17,311	$ 16,430	$43,627	$ 29,206

Share-based compensation cost capitalized in our inventory was $0.8 million at September 27, 2008 and $0.6 million at December 29, 2007. As of September 27, 2008, we had $15.3 million of unrecognized share-based compensation cost related to unvested stock option awards, which we expect to recognize as an expense over a weighted-average period of approximately 2 years, and $102.6 million of unrecognized share-based compensation cost related to unvested restricted stock units, which we expect to recognize as an expense over a weighted-average period of approximately 2 years.

Note 13. Income Taxes

On December 31, 2006, we adopted the provisions of FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes,* which is an interpretation of SFAS 109, *Accounting for Income Taxes*. Tax law is subject to significant and varied interpretation, so an enterprise may be uncertain whether a tax position that it has taken will ultimately be sustained when it files its tax return. FIN 48 establishes a more-likely-than-not threshold that must be met before a tax benefit can be recognized in the financial statements and, for those benefits that may be recognized, stipulates that an enterprise should recognize the largest amount of the tax benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the taxing authority. FIN

Table of Contents

48 also addresses changes in judgments about the realizability of tax benefits, accrual of interest and penalties on unrecognized tax benefits, classification of liabilities for unrecognized tax benefits and related financial statement disclosures.

The following table reflects changes in unrecognized tax benefits for the nine months ended September 27, 2008 (in thousands):

Unrecognized tax benefits, beginning of period	$ 2,465
Increases related to prior year tax positions	777
Decreases related to prior year tax positions	(1,884)
Increases related to current year tax positions	2,055
Unrecognized tax benefits, end of period	$ 3,413

Of the decrease in unrecognized tax benefits of $1.9 million related to reassessments of prior year tax positions based on new information available to us, $0.2 million impacted our effective tax rate. The increase in unrecognized tax benefits for the prior and current year tax positions is $0.8 million and $2.1 million, respectively, all of which would impact the effective tax rate if recognized. Over the next twelve months, our estimated current year tax positions will continue to generate an increase in liabilities for unrecognized tax benefits. We do not believe it is reasonably possible our unrecognized tax benefits will significantly change within the next twelve months for tax positions not related to the current year. We operate in multiple jurisdictions throughout the world, and our tax returns are periodically audited or subject to review by both domestic and foreign tax authorities.

We are subject to filing requirements for income tax returns in the U.S. federal and various state jurisdictions as well as Germany, Malaysia. We are presently completing an examination by the German taxing authorities but do not anticipate a material change to our liability for unrecognized tax benefits. Additionally, our tax years going back to 2003 are subject to examination in all tax jurisdictions in which we operate.

At each period end, we exercise significant judgment in determining our provision for income taxes, our deferred tax assets and liabilities and our future taxable income for purposes of assessing our likelihood of using any future tax benefit from our deferred tax assets. The ultimate realization of deferred tax assets depends on the generation of sufficient taxable income of the appropriate character and in the appropriate taxing jurisdictions during the future periods in which the underlying tax-deductible temporary differences become deductible. We determined the valuation allowance on our deferred tax assets in accordance with the provisions of SFAS 109, which require us to weigh both positive and negative evidence in order to ascertain whether it is more likely than not that we will realize the deferred tax assets. We evaluated all significant available positive and negative evidence, including the existence of cumulative net losses, benefits that could be realized from available tax strategies and forecasts of future taxable income, in determining the need for a valuation allowance on our deferred tax assets.

As of March 29, 2008, we concluded that it was more-likely-than-not that the net deferred tax assets in Malaysia would be used in future periods. Therefore, based upon our assessment of the available evidence at March 29, 2008, we reversed the $0.6 million of valuation allowances established that we had established during fiscal 2007.

Our subsidiary in Malaysia has been granted a tax holiday for a period of 16 1/2 years, beginning on January 1, 2009 and running through June 30, 2025. The tax holiday provides for an income tax exemption of 100% on statutory income provided that certain criteria are met. We have derived a benefit in the current year from the deferred tax impact of taxable temporary differences, primarily attributable to accelerated tax depreciation that we anticipate will reverse in a tax-free manner during the tax holiday.

Note 14. Net Income per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted net income per share is computed giving effect to all potential dilutive common stock, including employee stock options and restricted stock units.

Table of Contents

The reconciliation of the numerator and denominator used in the calculation of basic and diluted net income per share is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Basic net income per share				
Numerator:				
Net income	$ 99,269	$ 46,034	$215,559	$ 95,480
Denominator:				
Weighted-average shares used in computing basic net income per share	80,430	75,666	79,789	73,537
Diluted net income per share				
Denominator:				
Weighted-average shares used in computing basic net income per share	80,430	75,666	79,789	73,537
Effect of stock options and restricted stock units outstanding	2,006	3,422	2,227	3,319
Weighted-average shares used in computing diluted net income per share	82,436	79,088	82,016	76,856

The following number of outstanding employee stock options and restricted stock units were excluded from the computation of diluted net income per share as it would have had an antidilutive effect (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Options to purchase common stock and restricted stock units	108	201	113	338

Note 15. Comprehensive Income

Comprehensive income, which includes foreign currency translation adjustments, unrealized gains and losses on derivative instruments designated and qualifying as cash flow hedges and unrealized gains and losses on available-for-sale securities, the impact of which has been excluded from net income and reflected as components of stockholders equity, is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net income	$ 99,269	$ 46,034	$215,559	$ 95,480

Foreign currency translation adjustments	(16,010)	2,203	(6,567)	2,543
Change in unrealized gain (loss) on marketable securities, net of tax of $67 and $75 for the three and nine months ended 2008, respectively	(134)	22	(149)	21
Change in unrealized gain (loss) on derivative instruments, net of tax of $(1,145) and $3,368 for the three and nine months ended 2008, respectively	34,012	(558)	14,155	278
Comprehensive income	$117,137	$ 47,701	$222,998	$ 98,322

Components of accumulated other comprehensive income (loss) were as follows (in thousands):

	September 27, 2008	**December 29, 2007**
Foreign currency translation adjustments	$ (449)	$ 6,118
Unrealized gain (loss) on marketable securities, net of tax of $60 for 2008 and $(15) for 2007	(121)	28
Unrealized gain (loss) on derivative instruments, net of tax of $4,321 for 2008 and $952 for 2007	12,527	(1,628)
Accumulated other comprehensive income (loss)	$11,957	$ 4,518

Table of Contents

Note 16. Statement of Cash Flows

Following is a reconciliation of net income to net cash provided by operating activities for the nine months ended September 27, 2008 and September 29, 2007 (in thousands):

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Net income	$215,559	$ 95,480
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	38,667	17,681
Intangible Impairment	1,335	
Share-based compensation	43,627	29,206
Remeasurement of debt	(318)	
Deferred income taxes	930	(49,031)
Excess tax benefits from share-based compensation arrangements	(13,736)	(18,600)
Loss (gain) on disposal of property and equipment	941	299
Non-cash interest		(3)
Provision for doubtful accounts receivable	36	
Gain on sales of investments, net	(191)	
Provision for excess and obsolete inventories	1,540	278
Changes in operating assets and liabilities:		
Accounts receivable	(23,705)	6,256
Inventories	(87,743)	(14,455)
Deferred project costs	(6,436)	
Prepaid expenses and other current assets	(20,138)	(6,030)
Costs and estimated earnings in excess of billings	(8,538)	
Other noncurrent assets	(3,239)	(2,211)
Billings in excess of costs and estimated earnings	(307)	
Accounts payable and accrued expenses	121,528	47,375
Total adjustments	44,253	10,765
Net cash provided by operating activities	$259,812	$106,245

Note 17. Segment Reporting

SFAS 131, *Disclosure about Segments of an Enterprise and Related Information*, establishes standards for companies to report in their financial statements information about operating segments, products, services, geographic areas and major customers. The method of determining what information to report is based on the way that management organizes the operating segments within the company for making operating decisions and assessing financial performance. The components segment, which is our principal business, is the design, manufacture and sale of solar modules, which convert sunlight to electricity. We sell our solar modules to thirteen principal customers, with which we have long term supply contracts. These customers include project developers, system integrators and operators of renewable energy projects.

We also sell solar power systems directly to system owners. These sales include both our solar modules and balance of system components that we procure from third parties. These sales may also include services such as development, engineering, procurement of permits and equipment, construction management, monitoring and maintenance. These operations do not currently meet the quantitative criteria for segments and therefore we classify

them in the Other category in the following tables (in thousands):

	Three Months Ended September 27, 2008			Three Months Ended September 29, 2007		
	Components	Other	Consolidated	Components	Other	Consolidated
Net sales	$ 333,085	$15,609	$ 348,694	$ 159,007	$	$ 159,007
Income (loss) before income taxes	$ 141,113	$ (8,014)	$ 133,099	$ 53,649	$	$ 53,649
Goodwill	$	$33,829	$ 33,829	$	$	$
Total Assets	$1,790,006	$69,844	$1,859,850	$1,177,156	$	$1,177,156

Table of Contents

	Nine Months Ended September 27, 2008			Nine Months Ended September 29, 2007		
	Components	Other	Consolidated	Components	Other	Consolidated
Net sales	$ 792,049	$ 20,601	$ 812,650	$ 303,179	$	$ 303,179
Income (loss) before income taxes	$ 308,119	$(15,955)	$ 292,164	$ 69,822	$	$ 69,822
Goodwill	$	$ 33,829	$ 33,829	$	$	$
Total Assets	$1,790,006	$ 69,844	$1,859,850	$1,177,156	$	$1,177,156

Note 18. Subsequent Events

In October 2008, we entered into a credit default swap (CDS) with J.P. Morgan Chase NA, New York in relation to a financial services company, a subsidiary of which holds our restricted investment of $25.0 million to fund our estimated future product collection and recycling costs. Under the CDS, a third party assumes, for a fee, a portion of the credit risk in the event of a pre-defined credit event related to the parent financial services company. The CDS we entered into provides protection for losses in the event of a pre-defined credit event of the parent financial services company in the amount of $25.0 million.

On October 28, 2008, the Company entered into an agreement to invest $25 million in preferred shares of SolarCity, Corporation (SolarCity), representing approximately 10% of the stock equity of SolarCity. The Company and SolarCity also entered into a framework agreement for the supply of 100 MW of the Company s modules to SolarCity between 2009 and 2013 for installation in solar power systems in the United States of America.

On October 29, 2008, First Solar Electric, LLC (FSE) entered into a Framework Agreement (the Agreement) with Edison Mission Energy (Mission), pursuant to which FSE and Mission agree to work together to develop solar power projects within the United States for identified customers. Under the Agreement, FSE will agree to provide design, engineering, procurement and construction services for such projects, subject to the satisfaction of certain contingencies and entering into definitive agreements for these services for each project.

On October 29, 2008, we announced entering into new long-term module supply agreements with Sorgenia Solar S.r.l., a developer of large-scale, grid-connected solar power plants in Italy and extended module supply agreements with several of First Solar s existing customers including EDF EN Development, Ecostream Switzerland GmbH, juwi solar GmbH and Phoenix Solar AG. These new agreements together with the new framework agreement with SolarCity expand contracted module volume by a total of 625 Megawatts, allowing for additional sales of approximately $1,030 million at an assumed exchange rate of $1.15/ 1.00 over the period of 2009 to 2013. These agreements are structured on terms similar to First Solar s existing long-term module supply agreements.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Securities Exchange Act of 1934 and the Securities Act of 1933, which are subject to risks, uncertainties and assumptions that are difficult to predict. All statements in this Quarterly Report on Form 10-Q, other than statements of historical fact, are forward-looking statements. These forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include statements, among other things, concerning our business strategy, including anticipated trends and developments in and management plans for our business and the markets in which we operate; future financial results, operating results, revenues, gross margin, operating expenses, products, projected costs and capital expenditures; research and development programs; sales and marketing initiatives; and competition. In some cases, you can identify these statements by forward-looking words, such as estimate, objective, expect, anticipate, project, plan, intend, believe, forecast, foresee, li

goal, target, might, will, could, predict and continue, the negative or plural of these words and other comparable terminology. Forward-looking statements are only predictions based on our current expectations and our projections about future events. All forward-looking statements included in this Quarterly Report on Form 10-Q are based upon information available to us as of the filing date of this Quarterly Report on Form 10-Q. You should not place undue reliance on these forward-looking statements. We undertake no obligation to update any of these forward-looking statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements. These factors include the matters discussed in the section entitled Risk Factors elsewhere in this Quarterly Report on Form 10-Q. You should carefully consider the risks and uncertainties described under this section.

The following discussion and analysis should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying notes contained in this Quarterly Report on Form 10-Q. Unless expressly stated or the context otherwise requires, the terms we, our, us and First Solar refer to First Solar, Inc. and its subsidiaries.

Overview

We design and manufacture solar modules using a proprietary thin film semiconductor technology that has allowed us to reduce our average solar module manufacturing costs to among the lowest in the world. Each solar module uses a thin layer of cadmium telluride semiconductor material to convert sunlight into electricity. We manufacture our solar modules on high-throughput production lines and we perform all manufacturing steps ourselves in an automated, proprietary, continuous process. In 2007 and the nine months ended September 27, 2008, we sold most of our solar modules to solar project developers and system integrators headquartered in Germany, France and Spain.

Table of Contents

First Solar was founded in 1999 to bring an advanced thin film semiconductor process into commercial production through the acquisition of predecessor technologies and the initiation of a research, development and production program that allowed us to improve upon the predecessor technologies and launch commercial operations in January 2002.

Currently, we manufacture our solar modules at our Perrysburg, Ohio, Frankfurt/Oder, Germany and Kulim, Malaysia manufacturing facilities and conduct our research and development activities at our Perrysburg, Ohio manufacturing facility. Our objective is to become, by 2010, the first solar module manufacturer to offer a solar electricity solution that generates electricity on a non-subsidized basis at a price equal to the price of retail electricity in key markets in North America, Europe and Asia.

We expect to have an annual global manufacturing capacity of approximately 1.1 GW by the end of fiscal 2009 (based on run rates for the third quarter of 2008). We completed construction at plant one and two at our Malaysian manufacturing center and are currently constructing plants three and four, which will reach full capacity at various dates in fiscal 2009. In addition, we began construction to expand our existing manufacturing facility in Perrysburg, Ohio.

On November 30, 2007, we completed the acquisition of Turner Renewable Energy, LLC, a privately held company which designed and deployed commercial solar projects for utilities and Fortune 500 companies in the United States. We have integrated the operations from this acquisition into our solar power systems and project development business.

On February 22, 2006, we were incorporated as a Delaware corporation. Prior to that date, we operated as a Delaware limited liability company.

Net Sales

We generate substantially all of our net sales from the sale of solar modules. Over the past four years and the nine months ended September 27, 2008, the main constraint limiting our sales has been our production capacity since customer demand has exceeded the number of solar modules we can produce. We price and sell our solar modules per watt of power. As a result, our net sales can fluctuate based on our output of sellable watts. We currently sell almost all of our solar modules to solar project developers and system integrators headquartered in Germany, France and Spain, which then resell our solar modules to end-users who receive government subsidies. The majority of our sales are denominated in foreign currency and subject to the fluctuation of the exchange rate between the euro and U.S. dollar. Our net sales could be adversely impacted if legislation reduces the current subsidy programs in Europe, North America or Asia or if interest rates increase, which could impact our end-users ability to either meet their target return on investment or finance their projects.

Under our customer contracts, starting in April 2006, we transfer title and risk of loss to the customer and recognize revenue upon shipment. Under our customer contracts in effect prior to April 1, 2006, we did not transfer title or risk of loss, or recognize revenue, until the solar modules were received by our customers. Our customers do not have extended payment terms or rights of return under these contracts.

Under our long-term solar module supply contracts (Long Term Supply Contracts) with our customers, we have the right to terminate certain contracts upon 12 months notice and a payment of a termination fee, if we determine that certain material adverse changes have occurred, including, depending on the contract, one or more of the following: new laws; rules or regulations with respect to our production, distribution, installation or collection and recycling program which have a substantial adverse impact on our business; unanticipated technical or operational issues which result in our experiencing widespread, persistent quality problems or the inability to achieve stable conversion efficiencies at planned levels; or extraordinary events beyond our control which substantially increase the cost of our labor, materials or utility expenses or significantly reduce our throughput.

Our customers are entitled to certain remedies in the event of missed deliveries of kilowatt volume. These delivery commitments are established through rolling four quarter forecasts that are agreed to with each of the customers within the parameters established in the Long Term Supply Contracts and define the specific quantities to be purchased on a quarterly basis and the schedules of the individual shipments to be made to the customers. In the case of a late delivery, certain of our customers are entitled to a maximum charge representing a percentage of the value of the delinquent delivery. If we do not meet our annual minimum volume shipments, our customers also have the right

to terminate these contracts on a prospective basis.

Table of Contents

With our acquisition of Turner Renewable Energy, LLC on November 30, 2007, we began accounting for a small portion of our revenues using the percentage of completion method of accounting. Revenues for our solar power systems and project development business for the nine months ended September 27, 2008 were $20.6 million and were not material to our consolidated results of operations.

No single customer accounted for more than 22% of our net sales in the nine months ended September 27, 2008.

Cost of sales

Our cost of sales includes the cost of raw materials and components, such as tempered back glass, transparent conductive oxide (TCO) coated front glass, cadmium telluride, laminate, connector assemblies, laminate edge seal and others. Other items contributing to our cost of sales are direct labor and manufacturing overhead such as engineering expense, equipment maintenance, environmental health and safety, quality and production control and procurement. Cost of sales also includes depreciation of manufacturing plants and equipment and facility-related expenses. In addition, we accrue warranty and solar module end-of-life collection and recycling costs to our cost of sales.

We implemented a program in 2005 to collect and recycle our solar modules after their use. Under our collection and recycling program, we enter into an agreement with the end-users of the solar power systems that use our solar modules. In the agreement, we commit, at our expense, to remove the solar modules from the installation site at the end of their life and transport them to a processing center where the solar module materials and components will be either refurbished and resold as used panels or recycled to recover some of the raw materials. In return, the owner agrees not to dispose of the solar modules except through our end-of-life collection and recycling program or another program that we approve of, and the solar power system owner is responsible for disassembling the solar modules and packaging them in containers that we provide. At the time we sell a solar module, we record an expense in cost of sales equal to the present value of the estimated future end-of-life collection and recycling obligation. We subsequently record accretion expense on this future obligation, which we classify with selling, general and administrative expense.

Overall, we expect our cost of sales per watt to decrease over the next several years due to an increase of sellable watts per solar module, an increase in unit output per line, geographic diversification into lower-cost manufacturing regions and more efficient absorption of fixed costs driven by economies of scale.

Gross profit

Gross profit is affected by numerous factors, including our average selling prices, foreign exchange rates, our manufacturing costs and the effective utilization of our production facilities. For example, our Long Term Supply Contracts specify a sales price per watt that declines approximately 6.5% at the beginning of each year. Another factor impacting gross profits is the ramp of production on new plants due to a reduced ability to absorb fixed costs until full production volumes are reached. As a result, gross profits may vary from quarter to quarter and year to year.

Research and development

Research and development expense consists primarily of salaries and personnel-related costs and the cost of products, materials and outside services used in our process and product research and development activities. We continually add equipment for general use in further process developments and record the depreciation of this equipment as research and development expense.

Selling, general and administrative

Selling, general and administrative expense consists primarily of salaries and other personnel-related costs, professional fees, insurance costs, travel expense and other selling expenses. We expect these expenses to increase in the near term, both in absolute dollars and as a percentage of net sales, in order to support the growth of our business as we expand our sales and marketing efforts, improve our information processes and systems and implement the financial reporting, compliance and other infrastructure required for a public company. Over time, we expect selling, general and administrative expense to decline as a percentage of net sales and on a cost per watt basis as our net sales and our total watts produced increase.

Table of Contents

Production start-up

Production start-up expense consists primarily of salaries and personnel-related costs and the cost of operating a production line before it has been qualified for full production, including the cost of raw materials for solar modules run through the production line during the qualification phase. It also includes all expenses related to the selection of a new site and the related legal and regulatory costs and the costs to maintain our plant replication program, to the extent we cannot capitalize these expenditures. We incurred production start-up expense of $16.9 million during 2007 in connection with the qualification of the German plant and the planning and preparation of our plants at our Malaysian manufacturing center. Production start-up expense for the nine months ended September 27, 2008, was $23.7 million relating to the planning and preparation of our plants at the Malaysian manufacturing center. We expect to continue to incur significant production start-up costs in the fourth quarter of fiscal 2008 related to our plants at the Malaysian manufacturing center, consistent with prior fiscal quarters. In general, we expect production start-up expense per production line to be higher when we build an entirely new manufacturing facility compared with the addition of new production lines at an existing manufacturing facility, primarily due to the additional infrastructure investment required when building an entirely new facility. We also expect to incur production start-up expenses in fiscal year 2009 related to our expansion of our Perrysburg, Ohio manufacturing facility. Over time, we expect production start-up expense to decline as a percentage of net sales and on a cost per watt basis as a result of economies of scale.

Interest income

Interest income is earned on our cash, cash equivalents, marketable securities and restricted cash.

Interest expense, net

Interest expense, net of amounts capitalized, is incurred on various debt financings.

Foreign currency gain (loss)

Foreign currency gain (loss) consists of gains and losses resulting from holding assets and liabilities and conducting transactions denominated in currencies other than the functional currency of the respective subsidiaries.

Use of estimates

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which we have prepared in accordance with U.S. GAAP for interim financial information. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, net sales and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventories, intangible assets, income taxes, warranty obligations, marketable securities valuation, derivative financial instrument valuation, end-of-life collection and recycling, contingencies and litigation and share-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Results of Operations

The following table sets forth our consolidated statements of operations as a percentage of net sales for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	43.9%	48.4%	45.3%	53.7%
Gross profit	56.1%	51.6%	54.7%	46.3%
Research and development	2.9%	2.4%	2.8%	3.5%
Selling, general and administrative	14.1%	17.0%	14.9%	19.1%
Production start-up	1.8%	1.8%	2.9%	4.3%

Operating income	37.3%	30.4%	34.1%	19.4%
Foreign currency gain (loss)	(0.5)%	0.6%	(0.1)%	0.2%
Interest income	1.5%	3.3%	2.1%	4.4%
Interest expense, net	0.0%	(0.4)%	0.0%	(0.7)%
Other income (expense), net	(0.1)%	(0.1)%	(0.1)%	(0.3)%
Income tax benefit (expense)	(9.7)%	(4.8)%	(9.4)%	8.5%
Net income	28.5%	29.0%	26.6%	31.5%

Table of Contents

Three Months Ended September 27, 2008 and September 29, 2007

Net sales

(Dollars in thousands)	Three Months Ended September 27, 2008	September 29, 2007	Three Month Period Change	
Net sales	$348,694	$ 159,007	$189,687	119.3%

Net sales increased by $189.7 million from $159.0 million in the three months ended September 29, 2007 to $348.7 million in the three months ended September 27, 2008, primarily as a result of a 114% increase in the MW volume of solar modules sold. The increase in the MW volume of solar modules sold under our long term contracts was due to the ramp of production at our first Malaysian factory, full production of our German factory, and continued improvements to our overall production throughput. In addition, the average number of sellable watts per solar module increased by 3% and the average selling price increased to $2.53 in the three months ended September 27, 2008 from $2.48 in the three months ended September 29, 2007. Our average selling price was positively impacted by $0.21 due to a favorable foreign exchange rate between the U.S. dollar and the euro of $1.51/ 1.00 in the three months ended September 27, 2008 vs. $1.37/ 1.00 in the three months ended September 29, 2007, which was partially offset by a contractual price decline of $0.16. During the three months ended September 27, 2008 and September 29, 2007, approximately 66% and 88%, respectively, of our net module sales resulted from sales of solar modules to customers headquartered in Germany.

Cost of sales

(Dollars in thousands)	Three Months Ended September 27, 2008	September 29, 2007	Three Month Period Change	
Cost of sales	$153,251	$ 76,967	$ 76,284	99.1%
% of net sales	43.9%	48.4%		

Cost of sales increased by $76.3 million from $77.0 million in the three months ended September 29, 2007 to $153.3 million in the three months ended September 27, 2008, primarily as a result of higher production and sales volumes resulting from the full production ramp of our German factory and production ramp at our first Malaysian factory. These factors caused a $44.7 million increase in direct material expense, a $3.9 million increase in sales freight and other costs and a $27.7 million increase in manufacturing overhead costs. The increase in manufacturing overhead costs was due to a $12.1 million increase in salaries and personnel-related expenses, including a $1.2 million increase in share-based compensation expense, a $7.2 million increase in facility and related expenses, and an $8.4 million increase in depreciation expense, in each case primarily resulting from increased infrastructure associated with our German and Malaysian factories. Cost of sales in the three months ended September 27, 2008 reflects a benefit of $2.0 million, or 0.6% of revenue, due to a change in the estimated amount of our warranty obligation.

Gross profit

(Dollars in thousands)	Three Months Ended September 27, 2008	September 29, 2007	Three Month Period Change	
Gross profit	$195,443	$ 82,040	$113,403	138.2%
% of net sales	56.1%	51.6%		

Gross profit increased by $113.4 million from $82.0 million in the three months ended September 29, 2007 to $195.4 million in the three months ended September 27, 2008, due to the increase in net sales. For the three months ended September 27, 2008, foreign exchange gains contributed approximately 2.5 percentage points to our gross

margin, as compared to the three months ended September 29, 2007. As a percentage of net sales, gross profit increased 4.5 percentage points from 51.6% to 56.1%, representing increased leverage of our fixed cost infrastructure and scalability associated with our German and Malaysian expansions, which drove

Table of Contents

a 114% increase in the number of MW sold over the same time period. Additionally, we incurred $6.2 million of cost associated with the ramp of our Malaysian facility in the three months ended September 27, 2008 compared with $7.6 million of costs associated with the ramp of our German facility in the three months ended September 27, 2007.

Research and development

	Three Months Ended			
(Dollars in thousands)	**September 27, 2008**	**September 29, 2007**	**Three Month Period Change**	
Research and development	$9,952	$3,854	$6,098	158.2%
% of net sales	2.9%	2.4%		

Research and development expense increased by $6.1 million from $3.9 million in the three months ended September 29, 2007 to $10.0 million in the three months ended September 27, 2008, primarily as a result of an increase in headcount, which resulted in a $4.9 million increase in personnel-related expense, including a $0.7 million increase in share-based compensation expense. In addition, depreciation, equipment and lab supply expenses, and consulting expenses increased by $0.9 million offset by a decline in grant revenue of $0.3 million.

Selling, general and administrative

	Three Months Ended			
(Dollars in thousands)	**September 27, 2008**	**September 29, 2007**	**Three Month Period Change**	
Selling, general and administrative	$48,995	$27,082	$21,913	80.9%
% of net sales	14.1%	17.0%		

Selling, general and administrative expense increased by $21.9 million from $27.1 million in the three months ended September 29, 2007 to $49.0 million in the three months ended September 27, 2008, primarily as a result of an increase in headcount, which resulted in a $12.5 million increase in personnel-related expense, including a $1.2 million decrease in share-based compensation expense. In addition, legal and professional service fees increased by $5.0 million and all other expenses increased by $4.4 million, primarily as a result of infrastructure build out related to our continued plant and market expansion.

Production start-up

	Three Months Ended			
(Dollars in thousands)	**September 27, 2008**	**September 29, 2007**	**Three Month Period Change**	
Production start-up	$6,344	$2,805	$3,539	126.2%
% of net sales	1.8%	1.8%		

In the three months ended September 27, 2008, we incurred $6.3 million of production start-up expense related to our sixteen line Malaysian expansion compared with $2.8 million of production start-up expense related to the ramp and qualification of our four line German plant during the three months ended September 29, 2007. Production start-up expense is primarily attributable to the cost of labor and material and depreciation expense to run and qualify the line prior to production, related facility expenses, management of our replication process and third party expenses.

Foreign currency gain (loss)

	Three Months Ended			
(Dollars in thousands)	**September 27, 2008**	**September 29, 2007**	**Three Month Period Change**	

Foreign currency gain (loss)	$ (1,889)	$ 965	$ (2,854)	(295.8)%

Foreign currency loss for the three months ended September 27, 2008 was $1.9 million compared with a foreign currency gain of $1.0 million for the three months ended September 29, 2007. This was primarily the result of a significant increase in the value of the U.S. dollar to the euro exchange rate during the three months ended September 27, 2008 compared with the three months ended September 29, 2007 and an increase in the amount of our euro exposure in the three months ended September 27, 2008.

Table of Contents

Interest income

(Dollars in thousands)	Three Months Ended September 27, 2008	September 29, 2007	Three Month Period Change	
Interest income	$5,323	$5,298	$25	N.M.

Interest income remained flat during the three months ended September 27, 2008 compared with the three months ended September 29, 2007, primarily as a result of higher cash, cash equivalents and marketable securities balances in the three months ended September 27, 2008, offset by a decline in interest rates.

Interest expense, net

(Dollars in thousands)	Three Months Ended September 27, 2008	September 29, 2007	Three Month Period Change	
Interest expense, net	$(127)	$(647)	$520	(80.4)%

Interest expense, net of amounts capitalized, decreased by $0.5 million during the three months ended September 27, 2008 compared with the three months ended September 29, 2007, primarily as a result of higher amounts of interest expense capitalized.

Other income (expense), net

(Dollars in thousands)	Three Months Ended September 27, 2008	September 29, 2007	Three Month Period Change	
Other income (expense), net	$(360)	$(266)	$(94)	35.3%

Other expense, net increased by $0.1 million during the three months ended September 27, 2008 compared with the three months ended September 29, 2007. Other expense consists mainly of financing fees related to our credit facilities.

Income tax benefit (expense)

(Dollars in thousands)	Three Months Ended September 27, 2008	September 29, 2007	Three Month Period Change	
Income tax benefit (expense)	$ (33,830)	$ (7,615)	$ (26,215)	344.3%

Income tax expense increased by $26.2 million from $7.6 million in the three months ended September 29, 2007 to $33.8 million in the three months ended September 27, 2008. Our effective tax rate was 25.4% for the three months ended September 27, 2008. The provision for income taxes differs from the amount computed by applying the statutory U.S. federal rate primarily due to the benefit associated with foreign income taxed at lower rates and the beneficial impact of a Malaysian tax holiday effective in 2009 on Malaysian deferred taxes, partially offset by non-deductible expenses that increase the effective tax rate. The beneficial impact of the Malaysian tax holiday effective in 2009 to our effective tax rate was 3.0% for the three months ended September 27, 2008. The income tax expense of $7.6 million in the three months ended September 29, 2007 includes the reversal of valuation allowances of $7.5 million against previously established German deferred income tax assets, offset by $15.1 million in current income tax provision. We expect an effective tax rate of approximately 26% for fiscal 2008.

Nine Months Ended September 27, 2008 and September 29, 2007

Net sales

(Dollars in thousands)	Nine Months Ended September 27, 2008	September 29, 2007	Nine Month Period Change	
Net sales	$812,650	$303,179	$509,471	168.0%

Net sales increased by $509.5 million from $303.2 million in the nine months ended September 29, 2007 to $812.7 million in the nine months ended September 27, 2008, primarily as a result of a 154% increase in the MW volume of solar modules sold. The

Table of Contents

increase in the MW volume of solar modules sold under our long term contracts was due to the full production ramp of our German facility, commencement of production at our Malaysian facility, and continued improvements to our overall production throughput. In addition, the average number of sellable watts per solar module increased by 5% in the nine months ended September 27, 2008 and the average selling price increased to $2.53 in the nine months ended September 27, 2008 from $2.41 in the nine months ended September 29, 2007. Our average selling price was positively impacted by $0.26 due to a favorable foreign exchange rate between the U.S. dollar and the euro; which was partially offset by a contractual price decline of $0.14. During the nine months ended September 27, 2008 and September 29, 2007, approximately 75% and 94%, respectively, of our net sales resulted from sales of solar modules to customers headquartered in Germany.

Cost of sales

	Nine Months Ended			
(Dollars in thousands)	**September 27, 2008**	**September 29, 2007**	**Nine Month Period Change**	
Cost of sales	$368,183	$162,726	$205,457	126.3%
% of net sales	45.3%	53.7%		

Cost of sales increased by $205.5 million from $162.7 million in the nine months ended September 29, 2007 to $368.2 million in the nine months ended September 27, 2008, primarily as a result of higher production and sales volumes resulting from the full production ramp of our German factory and initial production at our first Malaysian plant. These factors caused a $119.0 million increase in direct material expense, a $9.2 million increase in warranty costs and costs relating to the collection and recycling of our solar modules, partially offset by a $2.0 million benefit due to a change in our warranty obligation that we made in the three months ended September 27, 2008, a $6.8 million increase in sales freight and other costs and a $70.5 million increase in manufacturing overhead costs. The increase in manufacturing overhead costs was due to a $32.9 million increase in salaries and personnel-related expenses as a result of increased head count, including a $2.6 million increase in share-based compensation expense, a $19.7 million increase in facility and related expenses and a $17.9 million increase in depreciation expense. In each case the increased manufacturing overhead was primarily associated from infrastructure associated with our German and Malaysian build-outs.

Gross profit

	Nine Months Ended			
(Dollars in thousands)	**September 27, 2008**	**September 29, 2007**	**Nine Month Period Change**	
Gross profit	$444,467	$140,453	$304,014	216.5%
% of net sales	54.7%	46.3%		

Gross profit increased by $304.0 million from $140.5 million in the nine months ended September 29, 2007 to $444.5 million in the nine months ended September 27, 2008, due to an increase in net sales. For the nine months ended September 27, 2008, foreign exchange gains resulting in higher average selling prices contributed approximately 2.8 percentage points to our gross margin. As a percentage of net sales, gross profit increased 8.4 percentage points from 46.3% to 54.7%, representing increased leverage of our fixed cost infrastructure and scalability associated with our plant expansions, which drove a 154% increase in the number of MW sold over the same time period. Additionally, we incurred $12.6 million of cost associated with the ramp of our Malaysian facility in the nine months ended September 27, 2008 compared with $7.6 million of costs associated with the ramp of our German facility in the nine months ended September 29, 2007.

Research and development

	Nine Months Ended

(Dollars in thousands)	September 27, 2008	September 29, 2007	Nine Month Period Change	
Research and development	$22,437	$10,675	$11,762	110.2%
% of net sales	2.8%	3.5%		

Research and development expense increased by $11.7 million from $10.7 million in the nine months ended September 29, 2007 to $22.4 million in the nine months ended September 27, 2008, primarily as a result of an increase in headcount, which resulted in a $8.6 million increase in personnel-related expense, including a $0.6 million increase in share-based compensation expense. In

Table of Contents

addition, depreciation, equipment and lab supply expenses increased by $3.3 million, which was partially offset by a $0.5 million decrease in consulting expense, and grant revenue decreased by $0.3 million.

Selling, general and administrative

	Nine Months Ended			
(Dollars in thousands)	**September 27, 2008**	**September 29, 2007**	**Nine Month Period Change**	
Selling, general and administrative	$121,292	$58,057	$63,235	108.9%
% of net sales	14.9%	19.1%		

Selling, general and administrative expense increased by $63.2 million from $58.1 million in the nine months ended September 29, 2007 to $121.3 million in the nine months ended September 27, 2008, primarily as a result of an increase in headcount, which resulted in a $41.3 million increase in personnel-related expense, including a $10.8 million increase in share-based compensation expense. In addition, legal and professional service fees expense increased by $11.1 million and all other expenses increased by $10.8 million, primarily as a result of infrastructure build out related to our continued expansion and increased compliance cost associated with being a public company.

Production start-up

	Nine Months Ended			
(Dollars in thousands)	**September 27, 2008**	**September 29, 2007**	**Nine Month Period Change**	
Production start-up	$23,727	$12,802	$10,925	85.3%
% of net sales	2.9%	4.3%		

In the nine months ended September 27, 2008, we incurred $23.7 million of production start-up expense related to our sixteen line Malaysian expansion, which included related legal and regulatory costs, compared with $12.8 million of production start-up expense related to the ramp and qualification of our four line German plant during the nine months ended September 29, 2007. Production start-up expense is primarily attributable to the cost of labor and material and depreciation expense to run and qualify the line prior to production, related facility expenses, management of our replication process and third party expenses.

Foreign currency gain (loss)

	Nine Months Ended			
(Dollars in thousands)	**September 27, 2008**	**September 29, 2007**	**Nine Month Period Change**	
Foreign currency gain (loss)	$ (468)	$ 716	$ (1,184)	(165.4)%

Foreign currency loss for the nine months ended September 27, 2008 was $0.5 million compared with a foreign currency gain of $0.7 million for the nine months ended September 29, 2007. This was primarily as a result of an increase in the volatility of the U.S. dollar to the euro exchange rate during the nine months ended September 27, 2008 and a significant increase in the amount of our euro exposure in the nine months ended September 27, 2008 compared with the nine months ended September 29, 2007.

Interest income

	Nine Months Ended			
(Dollars in thousands)	**September 27, 2008**	**September 29, 2007**	**Nine Month Period Change**	
Interest income	$16,931	$13,199	$3,732	28.3%

Interest income increased by $3.7 million from $13.2 million in the nine months ended September 29, 2007 to $16.9 million in the nine months ended September 27, 2008, primarily as a result of higher cash, cash equivalents and marketable securities balances in the nine months ended September 27, 2008, partially offset by a decline in interest rates.

Table of Contents

Interest expense, net

(Dollars in thousands)	Nine Months Ended September 27, 2008	September 29, 2007	Nine Month Period Change	
Interest expense, net	$(131)	$(2,131)	$ 2,000	(93.9)%

Interest expense, net of amounts capitalized, decreased by $2.0 million during the nine months ended September 27, 2008 compared with the nine months ended September 29, 2007, primarily as a result of higher amounts of interest expense capitalized.

Other income (expense), net

(Dollars in thousands)	Nine Months Ended September 27, 2008	September 29, 2007	Nine Month Period Change	
Other income (expense), net	$(1,179)	$(881)	$(298)	33.8%

Other expense, net increased by $0.3 million during the nine months ended September 27, 2008 compared with the nine months ended September 29, 2007. Other expense consists mainly of financing fees related to our credit facilities.

Income tax benefit (expense)

(Dollars in thousands)	Nine Months Ended September 27, 2008	September 29, 2007	Nine Month Period Change	
Income tax benefit (expense)	$(76,605)	$ 25,658	$(102,263)	N.M.

Income tax expense increased by $102.3 million from a tax benefit of $25.7 million in the nine months ended September 29, 2007 to a tax expense of $76.6 million in the nine months ended September 27, 2008. Our effective tax rate was 26.2% for the nine months ended September 27, 2008. The provision for income taxes differs from the amount computed by applying the statutory U.S. federal rate primarily due to the benefit associated with foreign income taxed at lower rates and the beneficial impact of a Malaysian tax holiday effective in 2009 on Malaysian deferred taxes, partially offset by an anticipated tax return to tax provision true-up and non-deductible expenses that increase the effective tax rate. The beneficial impact of the Malaysian tax holiday effective in 2009 to our effective tax rate was 2.9% for the nine months ended September 27, 2008. The income tax benefit of $25.7 million in the nine months ended September 29, 2007 is mainly due to the reversal of valuation allowances of $43.1 million against previously established U.S. and German deferred income tax assets, offset by $17.4 million in current income tax provision. We expect an effective tax rate of approximately 26% for fiscal 2008.

Critical Accounting Policies and Estimates

For a description of the critical accounting policies that affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements, refer to our Annual Report on Form 10-K for the year ended December 29, 2007 filed with the Securities and Exchange Commission. There have been no changes to our critical accounting policies since December 29, 2007, with the exception of our adoption of SFAS 157, *Fair Value Measurements*, effective December 30, 2007, the first day of our fiscal year 2008. SFAS 157 establishes a framework for the fair value measurement of our marketable securities and derivative instruments, but does not require us to perform any additional fair value measurements. Our adoption of SFAS 157 did not have a material impact on our financial position, results of operations or cash flows.

Recent Accounting Pronouncements

See Note 3 to our condensed consolidated financial statements for a summary of recent accounting pronouncements.

Liquidity and Capital Resources

As of September 27, 2008, we had $729.4 million in cash, cash equivalents and marketable securities compared with $669.7 million at December 29, 2007.

Table of Contents

Operating Activities

Cash provided by operating activities was $259.8 million in the nine months ended September 27, 2008 compared with $106.2 million in the nine months ended September 29, 2007. Net cash provided by operating activities for the nine months ended September 27, 2008 resulted primarily from an increase in net income, accounts payable and accrued expenses in this period as well as the impact of non-cash items that were recorded on the statements of income, primarily depreciation and amortization expense and stock-based compensation expense, offset by investments in accounts receivable and inventories to support growth.

Cash received from customers increased to $779.2 million during the nine months ended September 27, 2008 from $309.8 million during the nine months ended September 29, 2007 primarily due to an increase in net sales. This increase was partially offset by cash paid to suppliers and employees of $513.6 million in the nine months ended September 27, 2008 compared with cash paid to suppliers and employees of $172.2 million in the nine months ended September 29, 2007, mainly due to an increase in raw material and component purchases, an increase in personnel-related costs due to higher headcount and other costs supporting our global expansion.

Investing Activities

Cash used in investing activities was $197.3 million in the nine months ended September 27, 2008 compared with cash used of $715.7 million in the nine months ended September 29, 2007. Capital expenditures were $330.6 million during the nine months ended September 27, 2008 and $145.6 million in the nine months ended September 29, 2007. The increase in capital expenditures was primarily due to our investments related to the construction of our new plants in Malaysia. Cash provided by investing activities resulted primarily from the net proceeds of marketable securities of $148.6 million in the nine months ended September 27, 2008. In addition, during the nine months ended September 27, 2008, we placed $15.3 million of cash in restricted accounts to fund our solar module collection and recycling program.

Financing Activities

Cash provided by financing activities was $122.8 million in the nine months ended September 27, 2008 compared with $416.1 million in the nine months ended September 29, 2007. Cash provided by financing activities for the nine months ended September 27, 2008 resulted primarily from investment incentives related to the construction of our plant in Frankfurt/Oder, Germany of $35.7 million and proceeds from the issuance of debt, net of issuance costs, of $94.1 million related to the equipment export facility agreement for our Malaysian manufacturing center. See Note 10 to our condensed consolidated financial statements for more information about these new credit facilities. These cash proceeds were partially offset by the repayment of long-term debt of $34.8 million in the nine months ended September 27, 2008. In the nine months ended September 29, 2007 we received $48.2 million from additional drawings under our credit facilities with a consortium of banks led by IKB Deutsche Industriebank AG related to the financing of our German manufacturing facility. Proceeds from the issuance of common stock for the nine months ended September 27, 2008 were $14.1 million mainly due to proceeds received from the exercise of employee stock options. Proceeds from the issuance of common stock for the nine months ended September 29, 2007 were $372.7 million mainly due to the receipt of $366.0 million in net proceeds from the issuance of our common stock as a result of our follow-on offering and $6.7 million of proceeds received from the exercise of employee stock options.

Contractual Obligations

Our contractual obligations other than in the ordinary course of business have not materially changed since the end of our fiscal year 2007 with the exception of our export financing agreement for First Solar Malaysia (see Note 10 to our condensed consolidated financial statements). See also our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, for additional information regarding our contractual obligations.

We believe that our current cash and cash equivalents, marketable securities, cash flows from operating activities and low interest debt financings for our German plant and our Malaysian plants will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. However, if our financial results or operating plans change from our current assumptions, we may not have sufficient resources to support our business plan. As a result, we may engage in one or more debt or equity financings in the future that could result in increased expenses or dilution to our existing stockholders. If we are unable to obtain debt or equity financing on reasonable terms, we may be unable to execute our expansion strategy.

The recent and unprecedented disruption in the current credit markets has had a significant adverse impact on a number of financial institutions. As of September 27, 2008, our liquidity and investments have not been materially adversely impacted by the

Table of Contents

current credit environment and we believe that they will not be materially adversely impacted in the near future. We will continue to closely monitor our liquidity and the credit markets. However, we cannot predict with any certainty the impact to us of any further disruption in the credit environment.

Our debt-financing agreements bear interest at the Euro Interbank Offered Rate (Euribor). Euribor is the primary interbank lending rate within the Euro zone, with maturities ranging from one week to one year. A disruption of the credit environment as currently experienced could negatively impact interbank lending and therefore negatively impact the Euribor rate. An increase in the Euribor rate would increase our cost of borrowing.

On December 30, 2007, the beginning of our fiscal year 2008, we adopted SFAS 157. Our adoption of SFAS 157 was limited to our financial assets and financial liabilities, as permitted by FSP 157-2. We do not have any nonfinancial assets or nonfinancial liabilities that we recognize or disclose at fair value in our financial statements on a recurring basis. Our adoption of SFAS 157 did not have a material effect on our financial position and results of operations, and our fair value models do not make material use of unobservable inputs. See Note 9 to our condensed consolidated financial statements for further information about our adoption of SFAS 157.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 27, 2008.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Foreign Currency Exchange Risk

Our international operations accounted for approximately 97.0% of our net sales in the nine months ended September 27, 2008 and 100.0% of our net sales in the nine months ended September 29, 2007; all of these international sales were denominated in euros. As a result, we have exposure to foreign exchange risk with respect to almost all of our net sales. Fluctuations in exchange rates, particularly in the U.S. dollar to euro exchange rate, affect our gross and net profit margins and could result in foreign exchange and operating losses. In the past, most of our exposure to foreign exchange risk has related to currency gains and losses between the times we sign and settle our sales contracts. For example, our Long Term Supply Contracts obligate us to deliver solar modules at a fixed price in euros per watt and do not adjust for fluctuations in the U.S. dollar to euro exchange rate. In the nine months ended September 27, 2008, a 10% change in the euro exchange rates would have impacted our net sales by $81.3 million. With the expansion of our manufacturing operations into Germany and the current expansion into Malaysia, many of our operating expenses for the plants in these countries will be denominated in the local currency.

In the past, currency exchange rate fluctuations have had an impact on our business and results of operations. For example, currency exchange rate fluctuations negatively impacted our cash flows by $7.7 million in the nine months ended September 27, 2008 and positively impacted our cash flows by $2.4 million in the nine months ended September 29, 2007. Although we cannot predict the impact of future currency exchange rate fluctuations on our business or results of operations, we believe that we may have increased risk associated with currency exchange rate fluctuations in the future.

As of September 27, 2008, the total notional value of foreign exchange contracts to purchase Euros with U.S. dollars was 82.9 million ($121.0 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00) and the total notional value of foreign exchange contracts to sell Euros for U.S. dollars was 45.0 million ($65.7 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00). As of September 27, 2008, the unrealized loss of these forward contracts was $6.1 million. These foreign exchange forward contracts have maturities of 24 months or less. These currency forward contracts hedge third party balance sheet exposure.

Most of our German plant s operating expenses are denominated in euros, creating natural hedges against the currency risk in our net sales. In addition, we purchased forward contracts to hedge the exchange risk on forecasted cash flows denominated in euro. The total notional value of the forward contracts was 346.6 million ($506.0 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00) on September 27, 2008.

Table of Contents

Interest Rate Risk

We are exposed to interest rate risk because many of our customers depend on debt and equity financing to purchase and install a solar electricity generation system. Although the useful life of a solar electricity generation system is approximately 25 years, end-users of our solar modules must pay the entire cost of the system at the time of installation. As a result, many of our customers rely on debt financing to fund their up-front capital expenditure. An increase in interest rates could make it difficult for our end-users to secure the financing necessary to purchase and install a system. This could lower demand for our solar modules and system development services and reduce our net sales. In addition, we believe that a significant percentage of our end-users install solar electricity generation systems as an investment, funding the initial capital expenditure through a combination of equity and debt. An increase in interest rates could lower an investor s return on investment in a system or make alternative investments more attractive relative to solar electricity generation systems, which, in each case, could cause these end-users to seek alternative investments that promise higher returns.

During 2006, we entered into a credit facility with a consortium of banks, which bears interest at Euribor plus 1.6%. As of September 27, 2008, we hedged our exposure to changes in Euribor using interest rate swaps with a combined notional value of 41.4 million ($60.4 million at the balance sheet close rate on September 27, 2008 of $1.46/ 1.00).

During May of 2008, we entered into a credit facility with IKB, Natixis, Natixis Labuan Branch and Ausfuhrkredit-Gesellschaft mbH which is denominated in euro. The loans under fixed-rate credit facility will bear interest on the outstanding unpaid principal balance at an annual rate of 4.54%. The loans under the floating-rate credit facility will bear interest on the outstanding unpaid principal balance at Euribor plus a margin of 0.55%.

In addition, we invest some of our cash in debt securities, which exposes us to interest rate risk. The primary objective of our investment activities is to preserve principal and provide liquidity on demand, while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities in which we invest may be subject to market risk. This means that a change in prevailing interest rates may cause the market value of the investment to fluctuate. For example, if we hold a security that was issued with an interest rate fixed at the then-prevailing rate and the prevailing interest rate later rises, the market value of our investment will probably decline. To minimize this risk, we maintain our portfolio of cash equivalents and marketable securities in a variety of securities, including money market funds, government and non-government debt securities and certificates of deposit. As of September 27, 2008, our fixed-income investments earned a pretax yield of approximately 1.8%, with a weighted average maturity of 2.6 months. If interest rates were to instantaneously increase (decrease) by 100 basis points, the market value of our total investment portfolio could decrease (increase) by approximately $0.6 million. The direct risk to us associated with fluctuating interest rates is limited to our investment portfolio and we do not believe that a 10% change in interest rates will have a significant impact on our financial position, results of operations or cash flows. As of September 27, 2008, all of our investments were in money market accounts or federal and foreign agency debt and corporate debt securities.

Commodity and Component Risk

We are exposed to price risks for the raw materials, components and energy costs used in the manufacture and transportation of our solar modules. Also, some of our raw materials and components are sourced from a limited number of suppliers or a sole supplier. We endeavor to qualify multiple suppliers, a process which could take up to 12 months if successful, but some suppliers are unique and it may not be feasible to qualify second source suppliers. In some cases, we also enter into long term supply contracts for raw materials and components, but these arrangements are normally of shorter duration than the term of our Long Term Supply Contracts with our customers. As a result, we remain exposed to price changes in the raw materials and components used in our modules. In addition, a failure by a key supplier could disrupt our supply chain which could result in higher prices for our raw materials and components and even a disruption in our manufacturing process. Since our selling price under our Long Term Supply Contracts does not adjust in the event of price changes in our underlying raw materials or components and since our Long Term Supply Contracts require minimum deliveries of our products during their term, we are unable to pass along changes in the cost of the raw materials and components for our products and may be in default of our delivery obligations if we experience a manufacturing disruption.

Credit Risk

We have certain financial and derivative instruments that potentially subject us to credit risk. These consist primarily of cash, cash equivalents, marketable securities, interest swap agreements and forward foreign exchange contracts. We are exposed to credit losses in the event of nonperformance by the counter parties to our financial and derivative instruments. We place cash, cash equivalents,

Table of Contents

marketable securities, interest rate swap agreements and forward foreign exchange contracts with various high-quality financial institutions, and exposure is limited at any one institution. We continuously evaluate the credit standing of our counter party financial institutions.

In addition, we have certain restricted investments, which are exposed to credit risk. These consist primarily of restricted investments, which are held by a subsidiary of a financial services company to fund our estimated future product collection and recycling costs. As of September 27, 2008 our restricted investments with this financial services company were $25.0 million. In October 2008 we entered into a credit default swap (CDS) against the parent company of this financial services company to protect our investment from a significant pre-defined credit event to our counter party. Under a CDS, a third party assumes for a fee, a portion of the credit risk related to the investment. The CDS we entered into provides protection for losses in the event of a pre-defined credit event of the parent company of the financial services company in the amount of $25.0 million.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of September 27, 2008 of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 27, 2008, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in rules and forms of the SEC and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) to determine whether any changes in our internal control over financial reporting occurred during the nine months ended September 27, 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there have been no such changes in our internal control over financial reporting during the nine months ended September 27, 2008.

CEO and CFO Certifications

We have attached as exhibits to this Quarterly Report on Form 10-Q the certifications of our Chief Executive Officer and Chief Financial Officer, which are required in accordance with the Exchange Act. We recommend that this Item 4 be read in conjunction with those certifications for a more complete understanding of the subject matter presented.

Limitations on the Effectiveness of Controls

Control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives are being met. Further, the design of any control systems must reflect the fact that there are resource constraints, and the benefits of all controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Control systems can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Table of Contents

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

In the ordinary conduct of our business, we are subject to periodic lawsuits, investigations and claims, including, but not limited to, routine employment matters. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party will have a material adverse effect on our business, results of operations, cash flows or financial condition.

In accordance with SFAS 5, *Accounting for Contingencies*, we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review these liabilities at least quarterly and adjust them to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case.

Item 1A. ***Risk Factors***

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 29, 2007 and our registration statement on Form S-1/A filed on August 3, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K and our registration statement on Form S1/A are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. We have updated these risk factors to reflect changes in the third quarter of fiscal 2008 for the period ending September 27, 2008.

An increase in interest rates or tightening of the supply of capital by Global Financial Markets could make it difficult for end-users to finance the cost of a photovoltaic system and could reduce the demand for our solar modules.

Many of our end-users depend on debt financing to fund the initial capital expenditure required to purchase and install a photovoltaic system. As a result, an increase in interest rates could make it difficult for our end-users to secure the financing necessary to purchase and install a photovoltaic (PV) system on favorable terms, or at all, and thus lower demand for our solar modules and reduce our net sales. Due to the overall economic outlook, our end-users may change their decision or change the timing of their decision to purchase and install a photovoltaic system. In addition, we believe that a significant percentage of our end-users install PV systems as an investment, funding the initial capital expenditure through a combination of equity and debt. An increase in interest rates could lower an investor s return on investment in a PV system, or make alternative investments more attractive relative to PV systems, and, in each case, could cause these end-users to seek alternative investments. A reduction in the supply of non-recourse project debt financing or tax equity investments could reduce the number of solar projects that receive financing and thus lower demand for solar modules.

We currently sell a substantial portion of our solar modules under Long Term Supply Contracts, and we allocate a significant amount of our production to satisfy our obligations under these contracts. The loss of any of our large customers, their inability to perform under their contracts, or their default in payment could significantly reduce our net sales and adversely impact our operating results. These customers buy our modules with the expectation that they will be able to resell them in connection with the development of PV systems. As discussed above, many of these projects depend on the availability of debt and equity financing. A prolonged, material disruption to the supply of project finance could adversely affect our customers ability to perform under these agreements. In the event of default by one or more of these customers, we may be unable to sell these modules at the prices specified in our Long Term Contracts, especially if demand for photovoltaic systems softens or supplies of solar modules increase.

Item 5. ***Other Information***

The Company amended and restated the employment agreements and change in control agreements with certain executive officers, to be effective as of November 3, 2008, primarily to comply with Section 409A of the Internal Revenue Code of 1986. With the exception of Mr. Carrington s Agreement, which had this provision, the amended and restated employment agreements were also amended to provide for one year of acceleration of outstanding equity awards for the executive in the event of death, disability or termination of employment without cause. Prior to these

amendments, outstanding equity awards continued to vest for one year only in the event of termination of employment without cause. The foregoing description of the amended and restated employment agreements and change in control agreements does not purport to be complete, and is qualified in its entirety by the full text of the amended and restated employment agreements and change in control agreements, which are filed as exhibits hereto and incorporated herein by reference. The Company entered into amended and restated employment agreements and change in control agreements with Michael J. Ahearn, Chief Executive Officer and John Carrington, Executive Vice President, Global Marketing and Business Development. The Company expects to enter into similar agreements with its other executive officers.

Item 6. ***Exhibits***

The following exhibits are filed with this Quarterly Report on Form 10-Q:

Exhibit		Incorporated by Reference				Filed
Number	Exhibit Description	Form	Date of First Filing	File Number	Exhibit Number	Herewith
10.01	Amended and Restated Employment Agreement and Amended and Restated Change in Control Agreement dated November 3, 2008 between First Solar, Inc. and Michael J. Ahearn.					X
10.02	Amended and Restated Employment Agreement and Amended and Restated Change in Control Agreement dated November 3, 2008 between First Solar, Inc. and John Carrington.					X
31.01	Certification of Chief Executive Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.02	Certification of Chief Financial Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.01*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C.					X

Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST SOLAR, INC.

By: /s/ JENS MEYERHOFF
Jens Meyerhoff
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)

October 30, 2008

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	Date of First Filing	File Number	Exhibit Number	
10.01	Amended and Restated Employment Agreement and Amended and Restated Change in Control Agreement dated November 3, 2008 between First Solar, Inc. and Michael J. Ahearn.					X
10.02	Amended and Restated Employment Agreement and Amended and Restated Change in Control Agreement dated November 3, 2008 between First Solar, Inc. and John Carrington.					X
31.01	Certification of Chief Executive Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.02	Certification of Chief Financial Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.01*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

*

This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.