



2014 Annual Report

About STR

STR manufactures encapsulants for the photovoltaic solar module industry. Our Photocap® encapsulants are of high quality due to our proprietary technology developed under contract to the predecessor to the U.S. Department of Energy in the late 1970s. Since pioneering this technology, we have the longest track record of field performance for solar encapsulants in the industry.

For over 35 years, we have been advancing solar energy as a key renewable, safe and clean electricity source. We strive to be the best at what we do while maintaining the highest ethical standards. For more information about STR, please visit www.strsolar.com.

STR-IQ Core Value System

SAFETY

The safety and well-being of our employees is our highest priority.

TENACITY

We pursue continuous improvement with persistent determination and view every challenge as an opportunity.

RESPONSIBILITY

We hold ourselves and each other accountable and strive to be a responsible corporate citizen of the communities in which we operate.

INTEGRITY

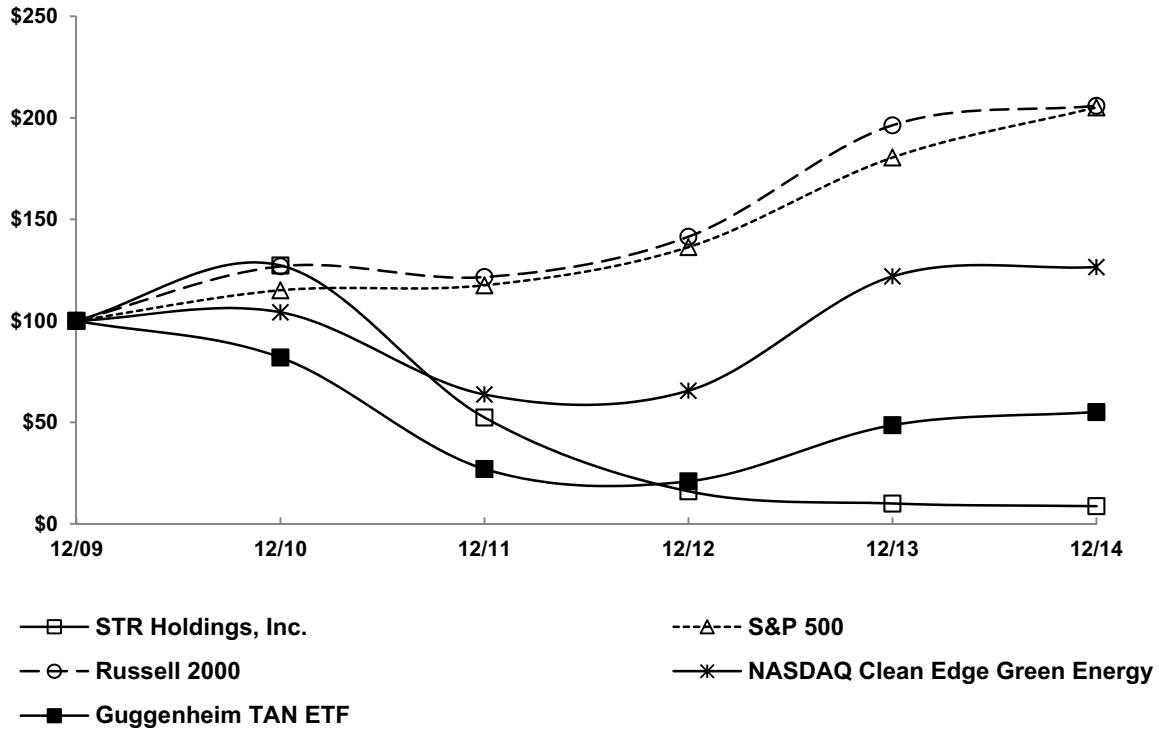
Integrity is at the core of everything we do, every product we make and every service we offer.

QUALITY

Quality is an integral part of every day and every job.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among STR Holdings, Inc., the S&P 500 Index, the Russell 2000 Index, the NASDAQ Clean Edge Green Energy Index, and Guggenheim TAN ETF



*\$100 invested on 12/31/09 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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FOWARD-LOOKING STATEMENTS

Some of the information within this Annual Report may contain projections or other forward-looking statements regarding future events or the future financial performance of STR Holdings, Inc. We wish to caution you that these statements are only predictions and that the actual events or results may differ materially. We refer you to Forward-Looking Statements in section 7 of the Form 10-K, Management's Discussion and Analysis of Financial Condition and Results of Operations.

LETTER FROM THE CEO

To my fellow stockholders:

2014 should come to mark one of the most pivotal years in the history of our company; a year in which we both bought and sold our own stock, took on a new majority stockholder, sold our underutilized building in Connecticut, appointed new members to our board of directors, declared a large special dividend, launched a factory in China, and cleared some critical R&D hurdles that had been hindering our progress.

As our sales and earnings had been declining rapidly since our historical peak in 2010, we also had been considering various strategic options to maximize stockholder value, even if that meant shutting the company down and liquidating its assets. It's a tough question to wrestle with and it has never been our go-to strategy, but the question must be periodically asked and answered with the best interest of our stockholders in mind.

Ultimately, we were very fortunate to have found an investor and strategic partner in China, Zhenfa Energy Group Co., Ltd., ("Zhenfa"), who, through their American subsidiary, Zhen Fa New Energy (U.S.) Co., Ltd, purchased newly issued shares representing 51% of the Company's outstanding shares on December 15, 2014. This development was undoubtedly STR's most important of the year, as Zhenfa has the potential to substantially improve our future in the encapsulant business by leveraging their relationships in the solar industry in China – precisely where we need it most.

We have learned over the years that developing relationships and conducting business in western markets really doesn't prepare one for doing the same in China. And while we were adept at the former – pushing global market share over 40% at one point in our history – we have not been very successful at developing a toehold in China by ourselves. Once the solar module manufacturing industry shifted there, we were clearly at a disadvantage.

One of our prominent western competitors had tried to "go it alone" in China and failed, even building an encapsulant factory that sat idle for years. Their miscalculation appears to have been that they could establish a factory before conforming their materials to Chinese manufacturing procedures that differed in many ways from the requirements of well-known western customers. From this

harsh lesson, we knew that the “build it and they will come” strategy was not viable; simply having one of the few essential elements was not enough.

To put it plainly, we believe that there are a handful of “imperatives” to finding success in China: (i) competitive products that conform to Chinese production methodology; (ii) domestic manufacturing facilities (in China); (iii) strong relationships with customers and potential customers; (iv) a strong domestic sales and technical service team; (v) low cost and price; and (vi) access to working capital.

STR had labored long and hard in the laboratory and in the field to learn about the nuances of making modules in China with local production equipment, as well as the associated requirements those methods and tools placed on our materials. Though we were making progress in each of the few prior years, 2014 was a watershed for STR, as we were finally able to demonstrate on a large scale that our materials worked well and offered competitive advantages to our customers in China.

We were also able to organize manufacturing in China; first through our tolling partner, FeiYu, and ultimately with our own factory in Suzhou, which came on line in the fourth quarter of 2014. As lead times for solar goods in China can be just a matter of days, domestic production is a must.

Through our cost-reduction programs, we were able to significantly reduce our overhead expenses as well as our conversion costs. Since our machinery platform was built on a product with paper liner, which has simply become cost-prohibitive with current pricing pressures, one of our biggest challenges has been finding a way to preserve the low-shrinkage aspect of our product, as well as the high throughput that accompanied it, without using paper liner. We surmounted this engineering challenge in 2013, with a global rollout taking hold in 2014.

During the fourth quarter of 2014, 61% of our production volume was without paper liner, compared to 21% being paperless during fiscal 2013. With this development and implementation, we have moved a key cost element of our bill of materials from 15% in 2013 down to 3-5% in 4Q14, with more reductions planned for next year. It is noteworthy that 100% of our China-based production is paperless.

Since our balance sheet has been strong all along, we have had access to working capital. We have also had strong sales and technical service teams on the ground in China for some years now, backed up by a state-of-the-art R&D laboratory in the United States.

So, revisiting the list of “imperatives”, the only missing element in China for most of 2014 was key relationships with potential customers at the decision-maker level. And that is why the Zhenfa transaction was so very important, and why we now have high aspirations for improving our business going forward.

As one of the top private solar engineering, procurement and construction companies and independent power producers in China, Zhenfa has C-Suite relationships at many of the leading Chinese module manufacturers. Importantly, Zhenfa’s influence comes from the “buy-side”, since the customers we have been seeking are current or potential suppliers to Zhenfa. We believe there are opportunities to work cooperatively with many leading Chinese solar companies to make sure our products are in the modules Zhenfa buys and deploys in their solar power stations. Having STR encapsulants in the modules that make up Zhenfa power stations lends extra confidence that the assets will perform for the long haul, leading to greater certainty that the long-term economics of their solar power stations will be protected – *STR Protected™*.

As a key part of our transaction, Zhenfa and STR also signed a Sales Service Agreement, under which Zhenfa will actively assist STR in marketing and selling our products in China, and, if we desire, will also provide factory space for future expansion rent-free for 5 years, followed by rent at 50% of the local market rate. These tangible actions and opportunities should convey a much more active role in improving the financial performance of the Company than would otherwise be the case with a majority shareholder from outside of the Chinese solar industry.

As contemplated under our Sales Service Agreement, we have begun to explore multiple opportunities where we may be able to capitalize on our strategic relationship with Zhenfa within the solar vertical, and I remain optimistic at the prospect of developing such new opportunities.

In closing, I'd like to highlight some of the important milestones we achieved in 2014:

- *Closed transaction with Zhenfa, our new majority shareholder and strategic partner in China*
- *Passed multiple qualification trials with top-tier Chinese module manufacturers*
- *Achieved production-scale sales of our products to several Chinese module companies with excellent results demonstrating our competitive advantages*
- *Increase sales volume by 57% over prior year*
- *Made further progress on our cost-reduction programs, narrowing losses and improving 4Q14 adjusted EBITDA by approximately \$500k and SG&A cost by approximately \$400k over 3Q14 (discounting one-time items)*
- *Passed multiple customer audits of our new factory in Suzhou, Jiangsu Province, China*
- *Took action to return \$46.6 million of capital to our stockholders through the repurchase of shares and the payment of a special dividend (special dividend paid January 2, 2015)*
- *Ended the year with \$16.6 million of cash and no debt*

I believe that we are now, with the achievements listed above, better positioned for success than at any time in the previous few years. Our goal in 2015 is to capitalize on this important progress and to return the Company to profitability, thereby improving value for all shareholders. On behalf of the STR senior management team and our fellow STR employees around the world, please accept my sincere gratitude for your continued support for STR.

Sincerely,

A handwritten signature in black ink, appearing to read 'Robert S. Yorgensen', with a long horizontal flourish extending to the right.

Robert S. Yorgensen
Chairman, President and Chief Executive Officer
STR Holdings, Inc.

STR Holdings, Inc.

2014
Financial Report

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from _____ to _____

Commission file number 001-34529



STR Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

27-1023344

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

10 Water Street, Enfield, Connecticut
(Address of principal executive offices)

06082
(Zip code)

Registrant's telephone number, including area code: **(860) 272-4235**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock \$0.01 par value per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a
smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2014 was \$21,903,873 based on the price of the last reported sale of \$4.05 per share (as adjusted to reflect the one-for-three reverse stock split effected on January 30, 2015) on the New York Stock Exchange on that date.

On February 27, 2015, the registrant had 18,080,774 outstanding shares of Common Stock, \$0.01 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Proxy Statement for the 2015 Annual Meeting of Stockholders, to be filed by the registrant on or prior to 120 days following the end of the registrant's fiscal year ended December 31, 2014, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. Business

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For a discussion of forward-looking statements, see the section captioned “Forward-Looking Statements” in Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Reverse Stock Split

On January 30, 2015, we filed a Certificate of Amendment to our Restated Certificate of Incorporation in order to effect a one-for-three reverse split of our common stock and our common stock began trading on the New York Stock Exchange (“NYSE”) on a split-adjusted basis on February 2, 2015. No fractional shares were issued in connection with the reverse stock split. As a result of the reverse stock split, the number of issued and outstanding shares of our common stock was reduced to approximately 18.1 million and 18.1 million, respectively, at December 31, 2014. **The change in the number of shares resulting from the reverse stock split has been applied retroactively to all shares and per share amounts presented in this Annual Report on Form 10-K.**

Overview

STR Holdings, Inc. and its subsidiaries (“we”, “us”, “our” or the “Company”) commenced operations in 1944 as a plastics and industrial materials research and development company. Based upon our expertise in polymer science, we evolved into a global provider of encapsulants to the solar industry. Encapsulant is a critical component used to protect and hold solar modules together.

We were the first to develop ethylene-vinyl acetate (“EVA”) based encapsulants for use in commercial solar module manufacturing. Our initial development research was conducted while under contract to the predecessor of the U.S. Department of Energy in the 1970s. Since that time, we have expanded our solar encapsulant business, by investing in research and development and global production capacity.

We also launched a quality assurance business (“QA”) during the 1970s, which provided product development, inspection, testing and audit services that enabled our retail and manufacturing customers to determine whether products met applicable safety, regulatory, quality, performance and social standards. In September 2011, we sold our QA business to Underwriters Laboratories, Inc. (“UL”) for \$275.0 million in cash, plus assumed cash. We divested our QA business to allow us to focus exclusively on our solar encapsulant business and to seek further product offerings related to the solar industry, as well as other growth markets related to our polymer manufacturing capabilities, and to retire our long-term debt. The historical results of operations of our former QA business have been recast and presented as discontinued operations in this Annual Report on Form 10-K. Further information about our divestiture of QA is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Note 3, Discontinued Operations, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Recent Developments and Strategy

Recent Developments

Although our revenues increased in 2014 compared to 2013, our net sales and profitability have declined significantly since 2011. We attribute these declines primarily to a rapid shift of solar module

production from the United States and Europe to Asia, particularly China, the loss of our largest customer in 2013, financial distress of certain of our key customers, intensified competition and steep price declines resulting from excess capacity throughout the solar manufacturing industry.

In response to the significant decline in our business, in January 2013, our Board of Directors initiated a review of strategic alternatives and retained financial and business advisors to assist us with evaluating certain financial and operational aspects of various strategic alternatives. At the direction of a special committee of the Board or Directors, one of the financial advisors conducted a comprehensive “market test” to identify and evaluate potential purchasers of our business. The market test did not result in an offer to purchase our business on acceptable terms.

During the fourth quarter of 2013, at the request of the Board of Directors, our advisors analyzed several options for returning excess cash to our stockholders, including, among other things, a special dividend, open market repurchases, a fixed-price tender offer and a modified “Dutch auction” tender offer. Following a review of these options, the Board of Directors authorized us to pursue a modified “Dutch auction” tender offer, which we commenced on January 31, 2014, by which we offered to repurchase, for cash, up to \$30.0 million of shares of our common stock. On March 7, 2014, we closed on the modified “Dutch auction” tender offer and purchased a total of 5.2 million shares at \$4.62 per share for an aggregate purchase price of \$24.0 million, excluding fees and expenses associated with the offer, which amounted to \$2.4 million.

In an effort to reduce overhead expenses and capital expenditures, on January 13, 2014, our indirect subsidiary, STR Solar (Hong Kong), Limited, entered into a Contract Manufacturing Agreement (the “Manufacturing Agreement”) with ZheJiang FeiYu Photo-Electrical Science & Technology Co., Ltd. (“FeiYu”) and Zhejiang Xiesheng Group Co., Ltd., the parent corporation of FeiYu (“Xiesheng,” and together with FeiYu, the “Manufacturer”). Pursuant to the Manufacturing Agreement, we agreed to purchase certain solar encapsulant products manufactured by FeiYu to our specifications. In connection with the execution of the Manufacturing Agreement on March 14, 2014, we elected not to build a factory in China and agreed to sell our land use rights back to the Administration Committee of Changkun Industrial Government for \$1.9 million.

During the year, we continued to assess our strategic alternatives, and on August 11, 2014, we entered into a Stock Purchase Agreement (the “Purchase Agreement”) with Zhenfa Energy Group Co., Ltd., a Chinese limited liability company (“Zhenfa”) and its indirect wholly-owned subsidiary, Zhen Fa New Energy (U.S.) Co., Ltd., a Nevada corporation (the “Purchaser”).

On December 15, 2014, pursuant to the Purchase Agreement, we sold to the Purchaser an aggregate of 9.2 million shares (the “Purchased Shares”) of our common stock for an aggregate purchase price of approximately \$21.7 million, or \$2.35 per share. The Purchased Shares represented approximately 51% of our outstanding shares of common stock upon the closing of the transaction (the “Closing”). In addition, pursuant to the terms of the Purchase Agreement, two members of the Board of Directors resigned effective as of the Closing and the Board of Directors was expanded from five members to seven members. Four new directors, all nominated by the Purchaser, were appointed to the Board of Directors effective as of the Closing, constituting a majority of the Board of Directors. The Board of Directors also formed a Special Committee of Continuing Directors comprised of John A. Janitz and Andrew M. Leitch. The Special Committee of Continuing Directors has the power and authority to, among other things, (i) represent us in enforcing all matters under the Purchase Agreement and (ii) review and approve certain related-party transactions with the Purchaser and its affiliates.

Immediately prior to, and in connection with, the Closing, we declared a special dividend that was subsequently paid on January 2, 2015 to all of our stockholders of record (other than the Purchaser), as of December 26, 2014, in an aggregate amount of approximately \$22.6 million, or \$2.55 per share of common stock.

In connection with the execution of the Purchase Agreement, Specialized Technology Resources, Inc., our operating subsidiary, entered into a sales service agreement (the “Sales Service Agreement”) with Zhenfa whereby Zhenfa has agreed, among other things, to assist us in a number of endeavors, including, without limitation, marketing and selling our products in China, acquiring local raw materials, hiring and training personnel in China, and complying with Chinese law. Pursuant to the Sales Service Agreement, Zhenfa has also provided us with an option to lease a manufacturing facility owned by Zhenfa. Such facility will be at least 107,639 square feet and will be rent free for a period of at least five years. The Sales Service Agreement further provides that if we lease the facility, Zhenfa will provide us with an option to extend the lease at 50% of market rent (as to be determined) for a second five year term. The Sales Service Agreement became effective on the date of Closing, has an initial term of two years following the date of Closing and is automatically extended for one year periods unless terminated earlier by either party.

On January 23, 2015, we were notified by the New York Stock Exchange (the “NYSE”) that we were not in compliance with NYSE Listed Company Manual Section 802.01C because the average closing price of our common stock had been less than \$1.00 for 30 consecutive trading days. In order to cure this deficiency, on January 30, 2015, we effected a reverse stock split of our common stock at a ratio of one share-for-every three shares of the outstanding common stock (the “Reverse Stock Split”).

Strategic Overview

For several years, we have been working to increase our market share in China through investments in people, research and development and facilities. Firstly, we increased our Chinese sales and technical service teams to develop sound customer relationships at the tactical level and provide customer service in the local language, custom and time zone. Secondly, we invested in research and development to broaden the process window of our encapsulant products for use in Chinese module production processes, which differ from those found in the western markets we have historically supplied. Broadening our process window, while also maintaining and optimizing our high-quality performance attributes of long-term stability, low shrinkage, high light transmission and PID resistance, took significant effort and time. As a result of these efforts, we have now passed internal and external qualification testing with many of the leading Chinese module manufacturers. Thirdly, we invested in local manufacturing in China to shorten the order fulfillment cycle and to comply with customer demand for domestic production. As discussed above, our subsidiary, STR Solar (Hong Kong), Limited, entered into a Manufacturing Agreement with FeiYu, under which FeiYu will manufacture certain of our encapsulant products to our specification. FeiYu currently has approximately 1.0 GW of annual active manufacturing capacity. In addition, we have built out our own leased 57,500 square foot manufacturing facility located in Shajiang, China. This facility became operational in the fourth quarter of 2014 with 1.2 GW of initial production capacity.

We believe that these initiatives contributed to a 23% increase in net sales in 2014 over 2013. Notwithstanding the increased net sales, we continue to operate at a substantial net loss. Accordingly, we must continue to increase net sales to cover our current and anticipated operating expenses, and to achieve or sustain profitability in the future. We incurred net losses from continuing operations of approximately \$22.7 million, \$18.3 million and \$211.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. Net of non-cash impairments, net (losses) profit from continuing operations were (\$22.7) million, (\$18.1) million, and \$43.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Given the challenges we have faced in China, we have, for some time, sought to align with Chinese companies engaged in the solar industry. Our transactions with Zhenfa, in addition to providing a substantial cash dividend for our stockholders, have provided us with a strategic alliance in China to assist us in the highly competitive Chinese solar encapsulant manufacturing market.

Zhenfa is a leading solar systems integrator, engineering, procurement, and construction company and solar power station owner-operator within China. At the end of 2013, Zhenfa and its affiliates (collectively, the “Zhenfa Group”) had developed and installed approximately two gigawatts of solar power in China, including unique utility scale solar projects in which solar arrays are constructed and utilized in conjunction with fisheries in intertidal zones and agricultural projects in desertification areas. The Zhenfa Group holds Chinese patents in a self-adaptive sun tracking system for solar arrays that increases the efficiency of solar projects by up to 25% over fixed-mount systems, and in 2013 won a bid to construct a 13 megawatt ground-mounted solar project in Canberra, Australia.

We entered into the transaction with Zhenfa for the following strategic considerations:

- China has become one of the world’s largest solar module manufacturing markets. We have struggled to effectively penetrate that market in order to compete effectively. The Zhenfa Group is owned and headquartered in China and represents a significant customer of many top-tier Chinese module manufacturers;
- The Transaction should enhance our presence in China and could significantly improve our operating results if the Zhenfa Group were to be successful in assisting us in marketing and selling our products to China-based solar module manufacturers;
- The Sales Service Agreement contemplates that the Zhenfa Group will provide us the opportunity to lease on favorable terms a manufacturing facility in China, and other valuable assistance in doing business in China; and
- Given our complementary businesses and geographic locations, additional opportunities may be available to expand our mutual cooperation throughout the solar value chain.

For further information on the transaction or Zhenfa, refer to the proxy filed on October 8, 2014 with the SEC.

Solar Energy Market Overview

Solar energy has emerged as one of the most rapidly growing sources of renewable energy. A number of different technologies have been developed to harness solar energy. The most prevalent technology comprises interconnected photovoltaic (“PV”) cells to generate electricity directly from sunlight. Solar energy has many advantages over other renewable and non-renewable electricity sources relative to environmental impact, delivery risk, distributed generation, matching of peak generation with demand, and low maintenance and installation cost at competitive prices in many global markets.

PV systems have been used to produce electricity for several decades. However, technological advances and production efficiencies combined with the rising costs of conventional/carbon-based electricity and the availability of government subsidies and incentives, have led to solar becoming one of the fastest growing renewable energy technologies.

Government incentive programs, which make solar energy more price competitive with other energy sources, are among the key demand drivers for PV. Historically, the largest growth in the demand for PV was in the European Union, driven by its goal of generating 20% of its electricity from renewable sources by 2020. However, Europe’s share of global demand has declined and is expected to continue to decline as many European Union countries, such as Germany and Italy, continue to reduce their subsidy programs in relation to financing constraints, overall fiscal policy, and saturation due to cumulative installed capacity. The reduction in subsidies and excess capacity in the solar industry have driven a reduction in selling prices throughout the supply chain that is expected to allow future unit volume growth in new end markets as grid-parity is achieved and a price-elastic model continues to develop. In particular, we estimate there will be continued growth in installation of PV modules in the United States, China, India, South America, Africa and the Middle East.

Despite our expectations for favorable conditions for the adoption of solar electricity generation, solar energy continues to represent only a very small fraction of the world's electricity supply.

Solar Energy Systems

Solar electricity is primarily generated by PV systems that are comprised of solar modules, mounting structures and electrical components. PV systems are either grid-connected or off-grid. Grid-connected systems are tied to the transmission and distribution grid and feed electricity into the end-user's electrical system and/or the grid. Such systems are commonly mounted on the rooftops of buildings, integrated into building facades or installed on the ground using support structures and range in size from a small number of kilowatts to many megawatts. Off-grid PV systems are typically much smaller and are frequently used in remote areas where they may be the only source of electricity for the end-user.

Solar Modules

PV cells are semiconductor devices that convert sunlight directly to electricity by a process known as the photovoltaic effect. A solar module is an assembly of PV cells that are electrically interconnected, laminated and framed in a durable and weatherproof package.

There are two primary commercialized categories of solar cells: crystalline silicon and thin-film. PV devices can be manufactured using different semiconductor materials, including mono- and poly-crystalline silicon for silicon cells, and amorphous silicon, gallium arsenide, copper indium gallium selenide and cadmium telluride for thin-film cells. Crystalline silicon cells typically operate at higher conversion efficiency. Historically, crystalline silicon cells have been higher in cost due to a more complex production process and the need for more expensive raw materials. In recent years, the price of polysilicon has declined rapidly, eroding the cost advantage of thin-film cells.

During the last five years, the production of solar modules has migrated rapidly from the U.S. and Europe to Asia, primarily China.

Encapsulants

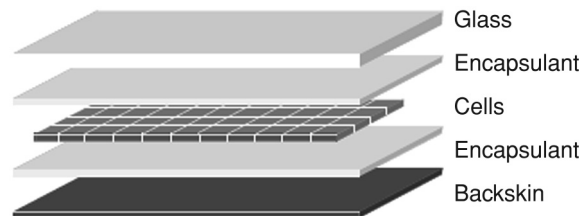
Regardless of the technology used to create solar energy from a PV system, the core component of the solar cell is the semiconductor circuit. To protect and preserve that circuit, solar module manufacturers typically use an encapsulant. Encapsulants are critical to the proper functioning of solar modules, as they protect cells from the elements, bond the multiple layers of a module together and provide electrical isolation. Encapsulants must incorporate high optical transparency, stability at high temperatures and high levels of ultraviolet radiation, good adhesion to different module materials, adequate mechanical compliance to accommodate stresses induced by differences in thermal expansion and contraction between glass and cells, good dielectric properties (electrical isolation) and resistance to potential induced degradation. Even slight deterioration of any of these properties over time could significantly impair the electrical output of the solar module, which is of importance in the solar industry where solar module manufacturers typically provide 20 to 25-year warranties for their products.

Over the years, various encapsulant materials have been used in solar modules, including EVA, polyvinyl butyral ("PVB"), polyolefin elastomer ("POE") and poly dimethyl siloxane or silicone. We currently use EVA to make all of our encapsulant products. Our encapsulants are modified with additives to increase stability and make the encapsulant suitable for long-term outdoor applications, such as solar modules.

During solar module assembly, encapsulation is typically accomplished by vacuum lamination, wherein a "pre-lam" stack (as depicted in the diagram below) is fashioned into a singular part comprising multiple layers. Thin sheets of EVA are inserted between the PV cells typically at the top

and rear surfaces. Heating the “sandwich” then causes the EVA to melt and then to cure, or crosslink, bonding the module into one piece. This step occurs towards the end of the manufacturing process and is critical to the entire solar module, as there is only one opportunity to laminate correctly.

Solar Module Component Stack—Crystalline Silicon



Shrinkage or inadequate adhesion can occur during lamination and may result in voids or holes in the encapsulant, which are considered defects and cause for rejection of the entire panel. Due to direct exposure to the elements, the encapsulant is susceptible to several performance failures that can jeopardize the integrity and performance of the entire solar module and lead to significant warranty costs for solar module manufacturers. The most significant failures include:

- Loss of clarity-the propensity of an encapsulant to “brown” after long-term exposure to ultraviolet (“UV”) light, leading to a permanent loss of transparency. If an encapsulant positioned above the cells loses its transparency, the power output of the module will be reduced.
- Module delamination-the loss of adhesion between the encapsulant and other module layers. Delamination in the field could occur in cases where the encapsulant was improperly cured or where incompatibilities between the encapsulant and other module components exist. Most delamination observed in the field has occurred at the interface between the encapsulant and the front surface of the solar cells. Delamination is more frequent and more severe in hot and humid climates, sometimes occurring after less than five years of exposure. Delamination first causes a performance loss due to optical de-coupling of the encapsulant from the cells. Of greater concern from a module lifetime perspective is the likelihood that the void resulting from the delamination will provide a preferential location for moisture accumulation, greatly increasing the possibility of corrosion failures in metallic contacts and resulting in module failure.
- Potential induced degradation (“PID”)-the loss of electrical output caused by sodium ion migration from the cover glass, through the encapsulant to the cell, is a factor that could adversely impact the energy yield of crystalline silicon solar modules. PID can occur in some solar module installations where a transformerless inverter is used in combination with a high negative voltage bias applied to the solar cells. The magnitude of the power loss depends upon many factors, including the applied voltage bias and the type of surface coatings on the solar cells. Specific encapsulant chemistry, such as in our recent product introductions, has been demonstrated to help inhibit power loss due to PID.

Despite the critical nature of encapsulant to solar cell applications, the encapsulant represents a small percentage of the total manufacturing cost of the solar module (typically 2 to 5 percent).

We typically sell our encapsulants in square meters. However, because the solar industry's standard measurement for production volume and capacity is in watts, megawatts ("MW"), or gigawatts ("GW"), we convert our capacity and production volume from square meters to approximate MW depending on the applicable conversion efficiencies that are specific to our customers. The conversion rate ranges from 13,000 to 15,000 square meters of encapsulant per MW. This rate is based on our calculations using publicly available information, our industry experience and assumptions that our management believes to be appropriate and reasonable. Certain production capacity and market metrics included in this Annual Report on Form 10-K are based on these calculations. Our calculations may not be accurate, and we may change the methodology of our calculations in the future as new information becomes available. In that case, period-to-period comparisons of such metrics may not be perfectly comparable.

Financial Information About Our Segment and Geographic Areas

Financial information about our segment and geographic areas is included in Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 16-Reportable Segment and Geographical Information, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Our Products

We have 14 commercial encapsulant formulations, of which 6 are actively in use. Drawing upon our considerable experience, we develop our formulations internally and work in conjunction with our customers to meet their varying requirements. Our encapsulant formulations offer a range of properties and processing attributes, including various curing times and temperatures that align with the requirements of our customers' individual lamination processes and module constructions. Our formulations can be used in both crystalline silicon and thin-film modules.

Our Markets and Customers

Our customers are solar module manufacturers located in North America, Europe and Asia. We typically sell our encapsulants on a purchase order basis that specify prices and delivery parameters, but can be cancelled or postponed prior to production. In addition, we provide technical support and assist our customers when they are qualifying solar modules that utilize our products, which can take from two months to more than two years. Historically, our sales strategy has focused on developing long-term relationships with solar module manufacturers and working collaboratively during their product development efforts. We use independent sales agents as a part of our growth strategy, primarily in China and India.

Over the past four years, many of our western customers continued to lose market share to lower-cost Chinese module manufacturers, with many being forced into bankruptcy or exiting the solar business. As such, module production has migrated rapidly to Asia, primarily China. We have been actively trying to enhance our presence and improve our competitiveness in China.

In January 2013, we were informed by our then largest customer, First Solar, Inc. ("First Solar"), that it would commence sourcing encapsulant from an alternate supplier in the first half of 2013. First Solar accounted for approximately 18% and 41% of our net sales for the years ended December 31, 2013 and 2012, respectively. We did not sell any products to First Solar in 2014. In 2014, ReneSola Ltd and its subsidiaries ("ReneSola") accounted for approximately 37% of our net sales for the year ended 2014. First Solar, ReneSola, Conergy AG and Global Wedge, Inc. each accounted for at least 10% of our net sales, and in the aggregate accounted for approximately 56% of our net sales for the year ended 2013. Our top five customers accounted for approximately 64%, 64% and 61% of our net sales in 2014, 2013 and 2012, respectively.

Our Operations

Facilities and Equipment

We currently own and operate production facilities in Asturias, Spain and Johor, Malaysia. In addition, we lease a production facility in Shajiabang, China. In March 2013, we ceased manufacturing operations at our East Windsor, Connecticut location and sold this facility in October 2014. We currently have total annual production capacity of approximately 8.2 GW with 3.0 GW at each of our Spain and Malaysia locations and 1.2 GW at our China facility. In addition, our Manufacturing Agreement with FeiYu provides us with approximately 1.0 GW of additional annual manufacturing capacity in China. We convert our capacity and production volume from square meters to MW depending on the applicable conversion efficiencies that are specific to our customers. The conversion rate ranges from 13,000 to 15,000 square meters of encapsulant per MW. This rate is based on our calculations using publicly available information, our industry experience and assumptions that our management believes to be appropriate and reasonable.

Our production lines incorporate our proprietary technology and processes. We rely on third-party equipment manufacturers to produce our manufacturing lines to our specifications, which we then further customize in-house. Most of our production lines are functionally equivalent, having the ability to manufacture all of our formulations and providing us with flexibility in meeting shifting trends in global demand.

Encapsulant Production Process

Our production process typically begins by mixing EVA pellets with several additives to give the encapsulant its desired properties. The mixture is then melted, homogenized, pressurized and forced through a die to create an “EVA curtain”, forming a continuous encapsulant sheet. The sheet then progresses downstream in a proprietary process: it is wound into rolls, slit to the desired width, and packaged for shipment to customers.

Our manufacturing quality program is ISO 9001 certified. We have a high level of automation at each of our facilities that includes real-time computerized monitoring of the manufacturing process. Such automation provides consistency across our facilities so we can satisfy customer orders at all of our manufacturing locations. In addition, our enterprise resource planning system allows us to efficiently plan our production schedule by location.

We test our products in real-time and at a high frequency after production. The Quality Department at all of our manufacturing facilities follows our global quality assurance program and has a mandate to discard products that do not meet required standards.

Raw Materials

Resin and paper liner are the two primary materials used in our process, with resin accounting for more than half of our manufacturing costs. A number of additives as well as packaging materials represent the remainder of our raw material costs.

We have multiple vendors for resin. Our objective has been to carry a five-week supply of resin to provide protection against supply interruptions resulting from inclement weather, natural disasters and strikes. The stock is distributed among our production facilities and warehouses so that a disruptive event at one location would not affect our ability to continue production. We have qualified resin suppliers local to each of our manufacturing facilities and continue to pursue qualification of additional resin suppliers.

We have multiple qualified suppliers of paper liner. Our primary paper suppliers are located in the United States and Europe, and we purchase paper based on pricing and required lead times. We are

currently in the process of removing paper liner from our production process to further reduce our manufacturing costs.

Seasonal Trends

Our business could be adversely affected by seasonal trends due to economic incentives, holiday seasons, weather patterns and other items. See Item 1A-Risk Factors for more information.

Our Competition

We face intense competition in the solar encapsulant market and have experienced a significant decline in our global market share from approximately 30% in 2010 to approximately 5% in 2014. We compete with a number of encapsulant manufacturers, including Bridgestone Corporation, Hangzhou First PV Material Co., Ltd., Mitsui Chemicals Group, Inc. and SK Chemical Ltd. We also face competition from suppliers of non-EVA encapsulants including 3M Company, Dow Chemical Corporation, Dow Corning Corporation, Dai Nippon Printing Co., Ltd., and E.I. DuPont De Nemours and Company (“DuPont”). Over the years, various alternative encapsulant materials have been used in solar modules, including POE, PVB and silicone. Many of our competitors are large, global companies with substantially more financial, manufacturing and logistical resources. Also, low-cost solar module manufacturers have emerged in Asia, primarily in China, who compete with our legacy customers in Western markets. As the China solar market matures, additional encapsulant providers from China and the greater Asian markets may compete with us. We compete on the basis of various factors, including:

- price;
- product performance, including quality and technology;
- product innovations;
- customer service and technical support; and
- delivery timing and logistics.

We expect competition in the encapsulant space to continue to intensify as the solar supply chain consolidates due to excess capacity, new technologies continue to emerge and module manufacturers continue to experience price pressure.

Qualification and Certification

Design certification programs for solar modules measure performance under simulated or advanced environmental conditions. In certifying their solar modules, our customers must qualify the encapsulant utilized in their product. The certification and qualification tests related to solar modules are defined in the following standards: IEC 61215 (crystalline silicon), IEC 61646 (thin-film) and UL 1703.

A successful qualification test program typically means that the tested models/types of solar modules have been subjected to and have passed the minimum requirements of the relevant standards. In addition, many PV module manufacturers often use internal validation tests that are beyond the scope and requirements of IEC and UL. These tests require suppliers to spend more time and investment to become approved suppliers for the module manufacturer’s bill of materials. Qualification or certification does not guarantee any performance, but is designed to provide reasonable assurance that the solar modules of the tested model or type will perform reliably under field conditions.

Under guidelines developed by the IEC/TC82/WG2 committee in 2000, modifications to the encapsulation system for solar modules can require retesting of the solar module. Such guidelines call

for various retesting if there is any change in the chemistry of the encapsulant used in the solar module.

Employees

As of December 31, 2014, we employed approximately 220 people on a full or part-time basis. We maintain a non-unionized workforce, with the exception of some employees in our manufacturing facility in Spain, where unions are statutory. We have not experienced any significant work stoppages during the past five years.

Executive Officers

The following table sets forth the names and ages, as of March 1, 2015, of our executive officers. The descriptions below include each such person's service as a board member or an executive officer of STR Holdings, Inc. and our predecessor.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Robert S. Yorgensen	51	Chairman, President and Chief Executive Officer
Alan N. Forman	54	Senior Vice President, General Counsel and Secretary
Joseph C. Radziewicz . . .	39	Vice President, Chief Financial Officer and Chief Accounting Officer

Robert S. Yorgensen. Mr. Yorgensen has been our Chairman since December 2014 and our President and Chief Executive Officer and a director of our board since January 2012. Prior to becoming our CEO, Mr. Yorgensen was the Vice President of our Solar division since 2007 and has been employed with us for 29 years. Mr. Yorgensen has held a variety of positions with us, including Extruded Products Manager and Senior Technical Specialist of Materials RD&E and Specialty Manufacturing, Technical Specialist of Materials RD&E and Specialty Manufacturing and Project Leader of Development Engineering and Specialty Manufacturing. He holds a Bachelor of Technology, Mechanical Engineering degree from the University of Connecticut and an A.S. from Hartford State Technical College.

Alan N. Forman. Mr. Forman became our Senior Vice President and General Counsel in April 2012 and was our Vice President and General Counsel since May 2010. Mr. Forman is responsible for all human resource and legal affairs of the Company. Prior to joining us, Mr. Forman was a partner at Brown Rudnick LLP and a member of their CleanTech team. Mr. Forman brings extensive experience in corporate and securities law including intellectual property, licensing agreements, financing transactions, corporate governance, and mergers and acquisitions. Mr. Forman holds a B.A. in Economics from Emory University and a J.D. from the George Washington University Law School.

Joseph C. Radziewicz. Mr. Radziewicz has been our Vice President and Chief Financial Officer since September 2012 and is responsible for all finance and accounting functions of the Company. Previously, Mr. Radziewicz served as our Controller and Principal Accounting Officer since January 2009. Prior to joining STR, Mr. Radziewicz held financial management positions at The Stanley Works and PricewaterhouseCoopers LLP. Mr. Radziewicz brings extensive experience in accounting and finance including SEC reporting, capital market transactions, working capital management, treasury operations, risk management, internal controls, and mergers and acquisitions. Mr. Radziewicz graduated summa cum laude from Bryant University with a B.A. in Business Administration and Financial Reporting. Mr. Radziewicz is a Certified Public Accountant, a Certified Management Accountant, a Certified Financial Manager and a Chartered Global Management Accountant.

Each executive officer holds office for a term of one year and until his successor is duly elected and qualified, in accordance with our bylaws.

Intellectual Property

Our intellectual property consists of 14 encapsulant formulations, as well as several processes and sub-processes, and our trademarks “STR®”, “PhotoCap®” and “STR Protected®”. As appropriate, we require employees, suppliers and customers to execute confidentiality agreements.

We own a number of trademarks, trade secrets and other intellectual property rights that relate to our products. We typically rely on trade secrets rather than patents to protect our proprietary manufacturing processes, proprietary encapsulant formulations, methods, documentation and other technology, as well as certain other business information. Patent protection requires a costly and uncertain federal registration process that would place our confidential information in the public domain. While we enter into confidentiality agreements with our employees and third parties to protect our intellectual property rights, such confidentiality provisions related to our trade secrets could be breached and may not provide meaningful protection for our trade secrets. Also, others may independently develop technologies or products that are similar or identical to ours. In such case, our trade secrets would not prevent third parties from competing with us. See Item 1A—Risk Factors—*Our potential inability to adequately protect our intellectual property during the outsource manufacturing of our products in China could negatively impact our performance* and Item 3—Legal Proceedings.

Environmental Regulation

We are subject to a variety of environmental, health and safety and pollution-control laws and regulations in the jurisdictions in which we operate. The cost of compliance with these laws and regulations is not material and we do not believe the cost of compliance with these laws and regulations will be material. We use, generate and discharge hazardous substances, chemicals and wastes at some of our facilities in connection with our product development and manufacturing activities. Any failure by us to restrict adequately the discharge of such substances, chemicals or wastes could subject us to potentially significant liabilities, clean-up costs, monetary damages, fines or suspensions in our business operations. In addition, some of our facilities are located on properties with a history of use involving hazardous substances, chemicals and wastes and may be contaminated. For example, we are in the process of performing environmental remediation activities at our 10 Water Street, Enfield, Connecticut location under a state remediation program. During our investigation, the site was found to contain a presence of volatile organic compounds, and we are remediating these conditions. The estimated remaining cost we expect to pay to remediate the current contamination under standards for industrial use of the property is approximately \$0.1 million. If we elect to sell, transfer or change the use of the facility, additional environmental testing would be required. Although we do not currently anticipate any material liabilities in connection with such contamination, we may be required to make expenditures for environmental remediation in the future.

Available Information

Information regarding us, including corporate governance policies, ethics policies and charters for the committees of the Board of Directors can be found on our internet website at <http://www.strsolar.com> and copies of these documents are available to stockholders, without charge, upon request to Investor Relations, STR Holdings, Inc., 10 Water Street, Enfield, Connecticut 06082. The information contained in our website is not intended to be incorporated into this Form 10-K. In addition, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are made available free of charge on our internet website on the same day that we electronically file such material with, or furnish it to the SEC. Information filed with the SEC may be read or copied at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. These filings are also available to the public from commercial document retrieval services and at the internet website maintained by the SEC at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A. Risk Factors

An investment in our common stock involves a very high degree of risk. You should carefully consider the following risks, as well as the other information in this Annual Report on Form 10-K, before making an investment in us. If any of these risks, or other events that we do not currently anticipate or that we currently deem immaterial, actually occur, our business, results of operations or financial condition may be materially adversely affected. In such an event, the trading price of our common stock could decline and you could lose part or all of your investment.

Risks Related to Our Business

We have recently incurred substantial losses and we may not be able to achieve or sustain profitability in the future.

We incurred net losses from continuing operations of \$22.7 million, \$18.3 million and \$211.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. Although we have reduced our expenses significantly through multiple reductions in our personnel and reductions in research and development costs, we may continue to incur net losses. Although we are pursuing plans to improve our financial results, such plans contemplate significant increases in net sales volume compared to 2014 volume. Failure to achieve such net sales may result in substantial net losses and will have a material adverse effect on our business, prospects and financial condition.

We have a limited amount of cash, no credit facility and may not be able to obtain credit.

On September 16, 2013, although we had no outstanding indebtedness, we terminated our revolving senior credit facility because of a lack of funding availability (unless we posted cash collateral) and the costs associated with maintaining it. In recent years, the credit markets have experienced unprecedented levels of volatility and disruption. In many cases, the markets still have limited credit capacity for certain issuers, and lenders have requested more restrictive terms. The market for new debt financing is extremely limited and in some cases not available at all to meet our liquidity needs or to fund growth in our business. As such, until we return to profitability, it is likely that we will not be able to obtain debt or other financing on reasonable terms, or at all. Furthermore, tight credit in the solar manufacturing industry may delay or prevent our customers from securing funding adequate to operate their businesses and purchase our products and could lead to an increase in our bad debt levels.

As of December 31, 2014, our principal source of liquidity was \$16.6 million of cash and \$8.3 million of income tax receivables. Our principal needs for liquidity have been and for the foreseeable future will continue to be, for capital investments and working capital. Payment terms are currently longer in China than in many other locations which has delayed cash receipts from certain of our customers. Although we believe that our available cash will be sufficient to meet our liquidity needs, including for capital investments, through at least the next 12 months, if we are unable to collect our accounts receivable or obtain bank acceptance notes, or fail to receive payment of accounts receivable in a timely fashion, our financial condition and results of operations will be negatively affected.

We currently rely on a single product line for all of our net sales.

In 2014, 2013 and 2012, we derived all of our net sales from solar encapsulant products. For our business to succeed, the market for this product line will have to grow substantially, and we will have to achieve broader market acceptance of our products. As a result, factors adversely affecting the demand for our solar encapsulants, such as competition, pricing or technological change, could materially adversely affect our business, financial condition and results of operations.

Our business's growth is dependent upon securing net sales to new customers, growing net sales to existing key customers and increasing our market share, particularly in China.

We estimate that our global market share has declined significantly from approximately 30% in 2010 to approximately 5% in 2014. The future success of our business depends on our ability to secure net sales to new customers, to grow net sales to existing key customers and to increase our global market share. Over the last few years, we believe our European and North American customers have lost market share to Asian module manufacturers, primarily from China, which continue to penetrate the global solar market. In order to be successful, we believe that we will need to significantly increase our net sales to certain large Chinese module manufacturers. Our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Our business is dependent on a limited number of customers, which may cause significant fluctuations or result in declines in our net sales.

The solar module industry is relatively concentrated, and we expect this concentration to increase as the industry continues to consolidate. As a result, we sell substantially all of our encapsulants to a limited number of solar module manufacturers. We expect that our results of operations will, for the foreseeable future, continue to depend on the sale of encapsulants to a relatively small number of customers. We were informed in January 2013 that our then largest customer, First Solar, would cease sourcing encapsulant from us starting in the first half of 2013. First Solar accounted for 0%, 18% and 41% of our net sales for the years ended December 31, 2014, 2013 and 2012, respectively. In 2014, ReneSola accounted for approximately 37% of our net sales. First Solar, ReneSola, Conergy AG and Global Wedge, Inc. each accounted for at least 10% of our net sales, and in the aggregate accounted for approximately 56% of our net sales for the year ended 2013. In addition, the top five customers accounted for approximately 64%, 64% and 61% of our net sales in 2014, 2013 and 2012, respectively. Furthermore, participants in the solar industry, including our customers, are experiencing pressure to reduce their costs. Since we are part of the overall supply chain to our customers, any cost pressures experienced by them may affect our business and results of operations. Our customers may not continue to generate significant net sales for us. Conversely, we may be unable to meet the production demands of our customers or maintain these customer relationships. Any one of the following events may cause material fluctuations or declines in our net sales and have a material adverse effect on our business, financial condition and results of operations:

- reduction in the price one or more of our significant customers is willing to pay for our encapsulants;
- reduction, postponement or cancellation of orders from one or more of our significant customers;
- selection by one or more of our customers of products competitive with our encapsulants;
- loss of one or more of our significant customers and failure to obtain additional or replacement customers; and
- failure of any of our significant customers to make timely payment for our products, if at all.

We currently outsource and rely on a third-party for the manufacture of a portion of our encapsulants, and our future success will be dependent on the timeliness and effectiveness of the efforts of this third party.

We have engaged a third-party manufacturer, FeiYu, to supply certain of our proprietary products to us in China. If problems develop in our relationship with FeiYu, or if FeiYu fails to perform as expected, it could lead to product defects, manufacturing and shipping delays, significant cost increases, changes in our strategies, and even failure of our initiatives, each of which may have a material adverse effect on our business, financial condition, and results of operations.

Technological changes in the solar energy industry or our failure to develop and introduce or integrate new technologies could render our encapsulants uncompetitive or obsolete, which would adversely affect our business.

The solar energy market is very competitive, rapidly evolving and characterized by continuous improvements in solar modules to increase efficiency and power output and improve aesthetics. This requires us and our customers to invest significant financial resources to develop new products and solar module technology to enhance existing modules to keep pace with evolving industry standards and changing customer requirements and to compete effectively in the future. During 2013, we engaged in significant cost reduction actions, including substantial reductions to our research and development and engineering personnel. The reduction of these resources may limit our ability to introduce new products or manufacturing improvements and may put us at a competitive disadvantage which could negatively impact our ability to increase or maintain our market share, generate net sales and negatively impact our financial condition, prospects and results of operations. Consequently, our competitors' development of encapsulant products and technologies may perform better or may be more cost-effective than our products. This could cause our encapsulants to become uncompetitive or obsolete, which would adversely affect our business, financial condition and results of operations. Product development activities are inherently uncertain, and we could encounter difficulties and increased costs in commercializing new technologies. As a result, our product development expenditures may not produce corresponding benefits.

Moreover, we produce a component utilized in the manufacture of solar modules. New or existing solar technologies that do not require encapsulants as we produce them, or at all, may emerge and/or gain market share. Recently, competitors have introduced new encapsulant products to the market based upon POE. We believe that certain of our former customers are now using POE encapsulant for their modules. Although we have been pursuing the development of POE products, such products are not yet commercially available and it is uncertain as to when or if we will sell such products. In the event that solar module manufacturers switch to POE encapsulant products from EVA encapsulants and we do not offer a competitive POE product, such switch could materially and adversely affect our business, financial condition and results of operations.

Also, manufacturing methods may emerge that could be more advanced or efficient than our current manufacturing capability. Such manufacturing methods could result in competitive products that are more effective and/or less expensive to produce resulting in decreased demand for our encapsulants or render them obsolete, which would adversely affect our business, financial condition and results of operations.

We face competition in our business from other companies producing encapsulants for solar modules.

The market for encapsulants is highly competitive and continually evolving. We compete with a number of encapsulant manufacturers, many of which are large, global companies with substantially more financial, manufacturing and logistical resources and strong customer relationships. If we fail to attract and retain customers for our current and future products, we will be unable to increase our net sales and market share. Our primary encapsulant competitors include Bridgestone Corporation, Hangzhou First PV Material Co., Ltd., Mitsui Chemicals Group, Inc and SK Chemical Ltd. We also face competition from suppliers of non-EVA encapsulants including 3M Company, Dow Chemical Corporation, Dow Corning Corporation, Dai Nippon Printing Co., Ltd., and DuPont. We also expect to compete with new entrants to the encapsulant market, including those that may offer more advanced technological solutions or complementary products such as backsheets, possess advanced or more efficient manufacturing capabilities or that have greater financial resources than we do. Further, as the China solar market matures, we expect additional encapsulant providers from China and the greater Asian markets to compete with us. Our competitors may develop and produce or may be currently producing encapsulants that offer advantages over our products. A widespread adoption of any of these

technologies could result in a rapid decline in our position in the encapsulant market and adversely affect our net sales and margins.

Excess capacity currently exists throughout the solar supply chain leading to substantial solar module price declines, which has caused cost to become the predominant factor in the encapsulant procurement process.

Although improving, excess capacity currently exists throughout the solar supply chain resulting in decreased selling prices of solar modules. Due to many module manufacturers not producing at full capacity as well as being impacted by pricing pressure, our encapsulants' value proposition has been reduced in the current excess capacity environment. As such, our customers and potential customers have been increasingly focused on the purchase price of encapsulants. In light of recent declines in our global market share, it is a priority to increase our market share through net sales to existing customers and to new customers. In order to remain competitive, we expect to be subject to pricing pressures that will negatively impact our net sales and net earnings. In addition, our competitors may reduce the price of their products which may force us to further reduce the price of our encapsulant products to retain net sales.

If demand for solar energy in general and solar modules in particular does not continue to develop or takes longer to develop than we anticipate, net sales in our business may continue to stagnate or decline, which would negatively affect our financial condition and results of operations.

Our encapsulants are used in the production of solar modules. As such, our financial condition and results of operations and future growth are tied to a significant extent to the overall demand for solar energy and solar modules. The solar energy market is at a relatively early stage of development and the extent to which solar modules will be widely adopted is uncertain. Many factors may affect the viability and widespread adoption of solar energy technology and demand for solar modules, and in turn, our encapsulants, including:

- cost-effectiveness of solar modules compared to conventional and non-solar renewable energy sources and products;
- performance and reliability of solar modules compared to conventional and non-solar renewable energy sources and products;
- availability and amount of government subsidies and incentives to support the development and deployment of solar energy technology;
- rate of adoption of solar energy and other renewable energy generation technologies, such as wind, geothermal and biomass;
- seasonal fluctuations related to economic incentives and weather patterns;
- impact of fiscal issues experienced by governments, primarily in Europe;
- fluctuations in economic and market conditions that affect the viability of conventional and non-solar renewable energy sources, such as increases or decreases in the prices of fossil fuels and corn or other biomass materials;
- changes in global economic conditions including increases in interest rates and the availability of financing and investment capital that is required to fund solar projects. Any volatility or disruption in the economic environment or the credit markets similar to what was experienced during 2009 or what was recently experienced in Europe may slow the growth of the solar industry, may cause our customers to experience a reduction in demand for their products and related financial difficulties and may adversely impact our business;

- fluctuations in capital expenditures by end users of solar modules, which tend to decrease when the overall economy slows down;
- the extent to which the electric power and broader energy industries are deregulated to permit broader adoption of solar electricity generation;
- the cost and availability of polysilicon and other key raw materials for the production of solar modules;
- construction of transmission facilities in certain areas to transport new solar energy loads;
- saturation in certain markets such as Europe; and
- rate of adoption of solar energy in growing solar markets such as the United States, China, India, the Middle East and Africa.

For example, we experienced a decline in our business during 2012 and 2011 partially due to overcapacity in the solar supply chain that created excess module inventory due to weaker-than-expected demand driven by the European financial crisis, global economic uncertainty, falling module prices that did not stabilize and further potential solar subsidy cuts. In 2009, we also experienced a decline in our business mainly due to decreased global demand for solar energy as a result of legislative changes, such as the cap in feed-in tariffs in Spain implemented in 2008, the global recession and the worldwide credit crisis.

If demand for solar energy and solar modules fails to develop sufficiently, demand for our customers' products as well as demand for our encapsulants will decrease, and we may not be able to grow our business or net sales and our financial condition and results of operations will be negatively impacted.

Our operations and assets in China are subject to significant political and economic uncertainties.

We manufacture our products in China with our own leased manufacturing plant, as well as engage a third-party located in China to toll for us. If the manufacture of our products in China is disrupted, our overall capacity could be significantly reduced and net sales and/or profitability could be negatively impacted. Furthermore, changes in Chinese laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

We may have limited legal recourse under the laws of China if disputes arise under our agreements with third parties.

The Chinese government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. If our tolling manufacturing arrangement, or other future arrangements, are unsuccessful or other adverse circumstances arise from these arrangements, we face the risk that our third-party manufacturer may dishonor our purchase orders or unwritten arrangements. Similarly, if our product sale arrangements with customers are unsuccessful or other adverse circumstances arise from these arrangements, we face the risk that our customers may dishonor their obligation to pay us for purchased products. Further, if

disputes arise under our agreements with any other parties doing business in China, including Zhenfa, we face the risk that such party may breach any such agreement or otherwise engage in conduct relating to their relationship with us that could otherwise give rise to liability under U.S. law. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under Chinese law, in either of these cases, may be limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

Our potential inability to adequately protect our intellectual property during the outsource manufacturing of our products in China could negatively impact our performance.

In connection with our tolling manufacturing arrangement, we rely on a third-party manufacturer to implement customary manufacturer safeguards onsite, such as the use of confidentiality agreements with employees, to protect our proprietary information and technologies during the manufacturing process. However, these safeguards may not effectively prevent unauthorized use of such information and technical knowhow, or prevent the manufacturer from retaining them. Although the courts in China are increasing and broadening their protection of intellectual property rights, the legal regime governing intellectual property rights in China is relatively immature and it is often difficult to create and enforce intellectual property rights or protect trade secrets there. We face risks that our proprietary information may not be afforded the same protection in China as it is in countries with well-developed intellectual property laws, and local laws may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights in China, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position. In the event that the third-party tolling manufacturer of our proprietary products misappropriates our intellectual property, our business, prospects and financial condition could be materially and adversely affected.

A significant reduction or elimination of government subsidies and economic incentives or a change in government policies that promote the use of solar energy could have a material adverse effect on our business and prospects.

Demand for our encapsulants depends on the continued adoption of solar energy and the resultant demand for solar modules. Demand for our products depends, in large part, on government incentives aimed to promote greater use of solar energy. In many countries in which solar modules are sold, solar energy would not be commercially viable without government incentives. This is because the cost of generating electricity from solar energy currently exceeds the costs of generating electricity from conventional energy sources in most regions of the world.

The scope of government incentives for solar energy depends, to a large extent, on political and policy developments relating to environmental and energy concerns in a given country that are subject to change, which could lead to a significant reduction in, or a discontinuation of, the support for renewable energy in such country. Federal, state and local governmental bodies in many of the target markets for our customers' businesses, including Germany, Italy, Spain, the United States, China, France, Japan and South Korea, have provided subsidies and economic incentives in the form of feed-in tariffs, rebates, tax credits and other incentives to end users, distributors, system integrators and manufacturers of solar energy products to promote the use of solar energy and to reduce dependency on other forms of energy. In many cases, the costs of these government subsidy programs are passed on to electricity consumers in the applicable regions. These government economic incentives could be

reduced or eliminated earlier than anticipated. For example, in Germany, which was a large solar PV end-user market, the government enacted legislation that reduced feed-in tariffs beginning June 30, 2010. In early 2011, the German government enacted further legislation that accelerated the annual year-end feed-in tariff reduction to July 1, 2011 for roof-top systems and September 1, 2011 for ground-mount projects. In 2012, the German government enacted additional legislation that reduced feed-in tariffs by between 20% and 30% depending on the size of the solar energy system. Additional negative changes to solar incentives in 2013 continued to affect the solar markets throughout the European Union. Also, in September 2008, the Spanish parliament adopted new legislation that decreased the feed-in tariff for solar energy by approximately 27% and capped its subsidized PV installations at 500 MW for 2009. This event drove an over-supply of solar module inventory in the supply chain during the first half of 2009 and was one of the main drivers behind our sales volume decline in 2009 compared to 2008. In addition, numerous other countries have recently reduced solar incentives. A change in government incentives similar to these may result in the pull-in of demand from solar module manufacturers due to increased end-user demand being driven by the incentive to purchase a solar system prior to the enactment of the decreased feed-in tariff incentives.

In addition, many European governments have recently experienced sovereign debt issues. As such, a risk exists that some of these governments will continue to reduce current subsidies provided for PV installations in conjunction with overall tighter fiscal policies.

In the United States, recent solar installation growth has been driven by Renewable Portfolio Standards, a regulatory mandate to increase production of energy from renewable sources such as wind, solar, biomass and other alternatives to fossil and nuclear electric generation, and a 30% federal energy investment tax credit for both residential and commercial solar installation through December 31, 2016, at which time the tax credit is set to decline.

Moreover, electric utility companies, or generators of electricity from fossil fuels or other renewable energy sources, could also lobby for changes in the relevant legislation in their markets to protect their revenue streams. Reduced growth in or the reduction, elimination or expiration of government subsidies and economic incentives for solar energy, especially those in our customers' target markets, could cause our net sales to decline and negatively impact our business.

Our gross margins and profitability may be adversely affected by rising commodity costs.

We are dependent upon certain raw materials, particularly resin and paper, for the manufacture of our encapsulants. During 2010 and the first half of 2011, we experienced significant raw material inflation, primarily of EVA resin which comprises approximately 50% of our cost of sales. We do not believe that EVA resin can be effectively hedged with derivatives in the commodity markets. Although the prices for resin declined in 2014 and 2013, they have been volatile over the past few years. If raw material prices increase, our gross margins and results of operations may be materially and adversely affected.

Deterioration of our customers' financial profile may cause additional credit risk on our accounts receivable.

A significant portion of our outstanding accounts receivable is derived from sales to a limited number of customers. The accounts receivable from our top five customers represented 79% and 97% of our accounts receivable balance as of December 31, 2014 and December 31, 2013, respectively. The accounts receivable due from our largest customer was 49% of our accounts receivable balance as of December 31, 2014. During the past several years, many solar module manufacturers became insolvent and the number of days outstanding on accounts receivable have increased significantly industry-wide. For example, in 2013, we recorded bad debt expense of \$0.3 million and \$1.4 million for Suntech Power Holdings Company Limited and Conergy AG, respectively. Moreover, many solar manufacturing companies continue to face significant liquidity and capital expenditure requirements, and as a result,

our customers may have trouble making payments owed to us. In addition, payment terms are currently longer in China than in many other locations. In order to mitigate this risk, we are attempting to obtain bank acceptance notes from financial institutions with respect to the accounts receivables from certain of our customers. If we are unable to collect our accounts receivable or obtain bank acceptance notes, or fail to receive payment of accounts receivable in a timely fashion, our financial condition and results of operations will be negatively affected.

If we are unable to attract, train and retain key personnel, our business may be materially and adversely affected.

Our future success depends, to a significant extent, on our ability to attract, train and retain management, operations and technical personnel. This may be particularly difficult in light of our financial performance during 2014, 2013 and 2012, and the loss of First Solar as a customer during the first half of 2013. In addition, we have substantially reduced our headcount during the past few years, which limits the amount of resources available to successfully manage and grow our business. The loss of the services of any member of our senior management team or the inability to hire or retain experienced management personnel could adversely affect our ability to execute our business plan and harm our operating results.

In periods of cost reduction, there is a risk that employees may voluntarily leave us to pursue other career opportunities. There is substantial competition for qualified technical personnel for our business, and as a result, we may be unable to continue to attract or retain qualified technical personnel necessary for the development of our business or recruit suitable replacement personnel. If we are unable to attract and retain qualified employees, our business may be materially and adversely affected.

Our dependence on a limited number of third-party suppliers for raw materials for our encapsulants and other significant materials used in our process could prevent us from timely delivery of encapsulants to our customers in the required quantities, which could result in order cancellations and decreased net sales.

We purchase resin and paper liner, the two main components used in our manufacturing process, from a limited number of third-party suppliers. If we fail to develop or maintain our relationships with these suppliers or with our other suppliers, or if the suppliers' facilities are affected by events beyond our control, we may be unable to manufacture our encapsulants or our encapsulants may be available only for customers in lesser quantities, at a higher cost or after a long delay. If we do not increase our sales volumes, which drive our demand for our suppliers' product, we may not procure at volumes sufficient to maintain favorable supplier relationships, which could lead to higher costs, lower quality and lack of availability of raw materials. We may be unable to pass along any price increases relating to materials costs to our customers, in which case our gross margins could be adversely affected. In addition, we do not maintain long-term supply contracts with our suppliers. Our inventory of raw materials, including back-up supplies of resin, may not be sufficient in the event of a supply disruption. For example, in 2005, we encountered a supply disruption when one of our resin suppliers had its facilities damaged by a hurricane, and another supplier simultaneously experienced a reactor fire. This forced us to use our back-up supplies of resin. The failure of a supplier to provide materials and components, or a supplier's failure to provide materials that meet our quality, quantity and cost requirements in a timely manner, could impair our ability to manufacture our products to specifications, particularly if we are unable to obtain these materials and components from alternative sources on a timely basis or on commercially reasonable terms. If we are forced to change suppliers, our customers may require us to undertake testing to ensure that our encapsulants meet their specifications.

Problems with product quality or product performance, including defects, could result in a decrease in customers and net sales, unexpected expenses and loss of market share.

Our encapsulants are complex and must meet stringent quality requirements. Products as complex as our encapsulants may contain undetected defects, especially when first introduced. For example, our encapsulants may contain defects that are not detected until after they are shipped or are installed because we cannot test for all possible scenarios that may arise in our customers' manufacturing process. These defects could cause us to incur significant costs, including costs to service or replace products, divert the attention of our engineering personnel from product development efforts and significantly affect our customer relationships and business reputation. If we deliver products with defects or if there is a perception that our products contain errors or defects, our credibility and the market acceptance and sales of our encapsulants could materially decline. In addition, we could be subject to product liability claims and could experience increased costs and expenses related to significant product liability claims or other legal judgments against us, or a widespread product recall by us or a solar module manufacturer.

We provide a short-term warranty that we have manufactured our products to our specifications. On limited occasions, we incur costs to service our products in connection with specific product performance matters that do not meet our manufacturing specifications. Also, in isolated occasions, we have offered limited short-term performance warranties relating to our encapsulants not causing module power loss. This type of arrangement may increase in 2015. If we were to ever receive a warranty claim for such matter, we would assess the need for a warranty accrual at that time.

The manufacturing process for our encapsulants is highly complex. Minor deviations in the manufacturing process can cause substantial decreases in yield and, in some cases, cause production to be suspended. We have from time to time experienced lower-than-anticipated manufacturing yields. This typically occurs during the production of new encapsulants or the installation and start-up of new process technologies or equipment. For example, during the third quarter of 2010, we experienced production inefficiencies and low yield associated with ramping newly installed production capacity at our Malaysia facility that negatively impacted our financial results. In addition, we experienced lower yields in 2013 in conjunction with new product introductions. As we expand our production capacity or we introduce new products, we may experience lower yields initially as is typical with any new equipment, process or product introduction. If we do not achieve planned yields, our costs of sales could increase, and product availability would decrease resulting in lower net sales than expected.

Changes to existing regulations and capacity in the utility sector and the solar energy industry may present technical, regulatory and economic barriers to the purchase and use of solar modules, which in turn may significantly reduce demand for our products.

The market for power generation products is heavily influenced by government regulations and policies concerning the electric utility industry, as well as the internal policies of electric utility companies. These regulations and policies often relate to electricity pricing and technical interconnection of end user-owned power generation. In a number of countries, these regulations and policies are being modified and may continue to be modified. End users' purchases of alternative energy sources, including solar modules, could be deterred by these regulations and policies. For example, utility companies sometimes charge fees to larger, industrial customers for disconnecting from the electricity transmission grid or relying on the electricity transmission grid for back-up purposes. Such fees could increase the costs of using solar modules, which may lead to reduced demand for solar modules and, in turn, our encapsulants.

We anticipate that solar modules and their installation will continue to be subject to oversight and regulation in accordance with national and local ordinances relating to building codes, safety, and environmental protection, utility interconnection, metering and related matters in various countries.

Any new government regulations or utility policies pertaining to solar modules may result in significant additional expenses to our customers, and their distributors and end users, which could cause a significant reduction in demand for solar modules and, in turn, our encapsulants.

The adoption of solar energy in most parts of the world will be dependent on the capacity of applicable electricity transmission grids to distribute the increased volume of electricity to end-users. For example, many countries may implement curtailment policies which would limit the amount of available solar power allowed to be generated because of transmission congestion or lack of transmission access. The lack of available capacity on the transmission grid could substantially impact the adoption of solar energy which could cause a significant reduction in demand for solar modules and, in turn, our encapsulants.

We typically rely upon trade secrets and contractual restrictions, and not patents, to protect our proprietary rights. Failure to protect our intellectual property rights may undermine our competitive position and protecting our rights or defending against third-party allegations of infringement may be costly.

Protection of proprietary processes, methods, documentation and other technology is critical to our business. Failure to protect, monitor and control the use of our intellectual property rights could cause us to lose our ability to compete and incur significant expenses. We typically rely on trade secrets, trademarks and contractual restrictions to protect our intellectual property rights. However, the measures we take to protect our trade secrets and other intellectual property rights may be insufficient. While we enter into confidentiality agreements with our employees and third parties to protect our intellectual property rights, such confidentiality provisions related to our trade secrets could be breached and may not provide meaningful protection for our trade secrets. Also, others may independently develop technologies or products that are similar or identical to ours. In such case, our trade secrets would not prevent third parties from competing with us.

Third parties or employees may infringe or misappropriate our proprietary technologies or other intellectual property rights, which could harm our business and operating results. Policing unauthorized use of intellectual property rights can be difficult and expensive, and adequate remedies may not be available.

The sales cycle for our encapsulants can be lengthy, which could result in uncertainty and delays in generating net sales.

The integration and testing of our encapsulants with prospective customers' solar modules or enhancements to existing customers' solar modules requires a substantial amount of time and resources. A customer may need up to one year, and in some cases even longer, to test, evaluate and adopt our encapsulants and qualify a new solar module, before ordering our encapsulants. Our customers then need additional time to begin volume production of solar modules that incorporate our encapsulants. As a result, the complete sales cycle for our business can be lengthy. We may experience a significant delay between the time we increase our expenditures for product development, sales and marketing efforts and raw materials inventory and the time we generate net sales, if any, from these expenditures.

As a supplier to solar module manufacturers, disruptions in any other component of the supply chain to solar module manufacturers may adversely affect our customers and consequently limit the growth of our business and net sales.

We supply a component to solar module manufacturers. As such, if there are disruptions in any other area of the supply chain for solar module manufacturers, it could affect the overall demand for our encapsulants. For example, the increased demand for polysilicon due to the rapid growth of the solar energy and computer industries and the significant lead time required for building additional capacity for polysilicon production led to an industry-wide shortage of polysilicon from 2005 through

2008, which is an essential raw material in the production of most of the solar modules produced by many of our customers. This and other disruptions to the supply chain may force our customers to reduce production, which in turn would decrease customer demand for our encapsulants and could adversely affect our net sales.

We generally operate on a purchase order basis with our customers, and their ability to cancel, reduce, or postpone orders could reduce our net sales and increase our costs.

Net sales to our customers are typically made through non-exclusive, short-term purchase order arrangements that specify prices and delivery parameters. The timing of placing these orders and the amounts of these orders are at our customers' discretion. Customers may cancel, reduce or postpone purchase orders with us prior to production on relatively short notice. If customers cancel, reduce or postpone existing orders or fail to make anticipated orders, it could result in the delay or loss of anticipated net sales, which could lead to excess raw materials inventory and unabsorbed overhead costs. Because our encapsulants have a limited shelf life from the time they are produced until they are incorporated into a solar module, we may be required to sell any excess inventory at a reduced price, or we may not be able to sell it at all and incur an inventory write-off, which could reduce our net sales and increase our costs.

Our substantial international operations and shift of business focus to emerging markets subject us to a number of risks.

We operate in several countries worldwide with a focus of increasing our net sales in emerging markets, particularly in China. Of our total net sales, approximately 100%, 94% and 82% were generated from outside the United States in the years ended December 31, 2014, 2013 and 2012, respectively, and we expect that our international operations will continue to grow in Asia given the current solar market and our strategy to increase our market share in the Asia-Pacific region. As such, our international operations are subject to a number of risks that could have a material adverse effect on our business, financial condition, results of operations or cash flow, including:

- a module manufacturer's unwillingness to purchase from foreign-owned companies;
- difficulty in enforcing agreements in foreign legal systems and in the collection of trade accounts receivable;
- foreign countries may impose additional withholding taxes or otherwise tax our foreign income, impose tariffs or adopt other restrictions on foreign trade and investment, including currency exchange controls;
- protectionist laws and business practices that favor local companies;
- difficulties in securing, servicing and increasing net sales to foreign customers;
- potentially adverse tax consequences;
- fluctuations in exchange rates may affect product demand and may adversely affect our profitability in U.S. dollars;
- potential noncompliance with a wide variety of laws and regulations, including the U.S. Foreign Corrupt Practices Act of 1977 ("FCPA"), the Office of Foreign Assets Control and similar non-U.S. laws and regulations;
- operations in parts of the world where strict compliance with anti-bribery laws may conflict with local practices and customs;
- inability to obtain, maintain or enforce intellectual property rights and otherwise protect against clone or "knock off" products;

- labor strikes, especially those affecting transportation and shipping;
- risk of nationalization of private enterprises;
- changes in general economic and political conditions in the countries in which we operate, including changes in the government incentives on which our module manufacturing customers and their customers rely;
- multiple, conflicting and unexpected adverse changes in foreign laws or regulatory requirements, including those with respect to local content rules, environmental protection, export duties, import duties and quotas;
- disruptions in our business operations or damage to strategic assets that may not be recoverable from applicable insurance policies caused by potential unfavorable weather patterns in certain locations of the world including, but not limited to, nor'easters, blizzards, earthquakes, typhoons and hurricanes;
- difficulty with developing staffing and simultaneously managing widespread operations as a result of, among other things, distance, language and cultural differences; and
- difficulty of and costs relating to compliance with the different commercial and legal requirements of the international markets in which we operate.

Our China operations are subject to national, regional and local regulation. The regulatory environment in China is evolving, and officials in the Chinese government exercise broad discretion in deciding how to interpret and apply regulations. It is possible that the Chinese government's current or future interpretation and application of existing or new regulations will negatively impact our China operations, result in regulatory investigations or lead to fines or penalties.

We may be subject to claims that we have infringed, misappropriated or otherwise violated the patent or other intellectual property rights of a third party. The outcome of any such claims is uncertain and any unfavorable result could adversely affect our business, financial condition and results of operations.

We may be subject to claims by third parties that we have infringed, misappropriated or otherwise violated their intellectual property rights. These claims may be costly to defend, and we may ultimately be unsuccessful. An adverse determination in any such litigation could subject us to significant liability to third parties (potentially including treble damages), require us to seek licenses from third parties (which may not be available on reasonable terms, or at all), make substantial one-time or ongoing royalty payments, redesign our products or subject us to temporary or permanent injunctions prohibiting the manufacture and sale of our products, the use of our technologies or the conduct of our business. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation. In addition, we may have no insurance coverage in connection with such litigation and may have to bear all costs arising from any such litigation to the extent we are unable to recover them from other parties. Any of these outcomes could have a material adverse effect on our business, financial condition and results of operations.

Our business could be adversely affected by seasonal trends and construction cycles.

We may be subject to industry-specific seasonal fluctuations in the future, particularly in climates that experience colder weather during the winter months. There are various reasons for seasonality fluctuations, mostly related to economic incentives and weather patterns. Prior to 2010, the construction of solar energy systems in Germany was concentrated in the second half of the calendar year, largely due to the annual reduction of the applicable minimum feed-in tariff. In early 2011, the German government enacted further legislation that accelerated the annual year-end feed-in tariff reduction to

July 1, 2011 for roof-top systems and September 1, 2011 for ground-mount projects. A change in government incentives similar to those may result in the pull-in of demand from solar module manufacturers due to increased end-user demand being driven by the incentive to purchase a solar system prior to the enactment of the decreased feed-in tariff incentives. As such, we may see atypical net sales during one reporting period as compared to another. In addition, our Spanish operation tends to have lower net sales during the third quarter of the year due to the European seasonal summer vacation, which occurs in August. In addition, our net sales are also typically lower in December as module manufacturers often defer purchases of our encapsulants to the next calendar year. In the United States, solar module customers will sometimes make purchasing decisions towards the end of the year in order to take advantage of tax credits or for budgetary reasons. In addition, construction levels are typically slower in colder months. Last, due to the rapid emergence of Chinese module manufacturers and the resulting global market share they possess, Chinese New Years can impact the production schedules of our Chinese customers, which could impact demand for our encapsulants during the first quarter of the year. Accordingly, our business and results of operations could be affected by seasonal fluctuations in the future.

Fluctuations in exchange rates could have an adverse effect on our results of operations, even if our underlying business results improve or remain steady.

Our reporting currency is the U.S. dollar, and we are exposed to foreign exchange rate risk because a significant portion of our net sales and costs are currently denominated in foreign currencies, primarily Euros and Chinese Renemibi, which we convert to U.S. dollars for financial reporting purposes. We currently do not engage in any hedging activities with respect to currency fluctuations. Changes in exchange rates on the translation of the earnings in foreign currencies into U.S. dollars are directly reflected in our financial results. As such, to the extent the value of the U.S. dollar increases against these foreign currencies, it will negatively impact our net sales, even if our results of operations have improved or remained steady. While the currency of our net sales and costs are generally matched, to the extent our costs and net sales are not denominated in the same currency for a particular location, we could experience further exposure to foreign currency fluctuations. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future.

We are a holding company with no business operations of our own and depend on our subsidiaries for cash.

We are a holding company with no significant business operations of our own. Our operations are conducted through our subsidiaries. Dividends from, and cash generated by, our subsidiaries are our principal sources of cash to repay any future indebtedness, fund operations and pay any dividends. Accordingly, our ability to repay any indebtedness, fund operations and pay any dividends to our stockholders is dependent on the earnings and the distributions of funds from our subsidiaries.

Compliance with environmental and health and safety regulations can be expensive, and noncompliance with these regulations may result in adverse publicity, potentially significant liabilities, monetary damages and fines.

We are required to comply with federal, state, local and foreign laws and regulations regarding protection of the environment and health and safety. If more stringent laws and regulations are adopted in the future, the costs of compliance with these new laws and regulations could be substantial. If we do not comply with such present or future laws and regulations or related permits, we may be required to pay substantial fines, suspend production or cease operations. We use, generate and discharge hazardous substances, chemicals and wastes in our product development and manufacturing activities. In addition, some of our facilities are located on properties with a history of use involving hazardous substances, chemicals and wastes and may be contaminated. We have performed

environmental investigations and remediation activities at our 10 Water Street, Enfield, Connecticut and our former 18 Craftsman Road, East Windsor, Connecticut locations. During our investigations, each site was found to contain the presence of various contaminants. Any failure by us to control the use of, to remediate the presence of, or to restrict adequately the discharge of, such substances, chemicals or wastes could subject us to potentially significant liabilities, clean-up costs, monetary damages, fines or suspensions in our business operations. See Item 1,—Business,—Environmental Regulation.

We may undertake acquisitions, investments, joint ventures or other strategic alliances, which may have a material adverse effect on our ability to manage our business, and such undertakings may be unsuccessful.

Acquisitions, joint ventures and strategic alliances may expose us to new operational, regulatory, market and geographic risks as well as risks associated with additional capital requirements.

These risks include, among other things:

- our inability to integrate new operations, personnel, products, services and technologies;
- unforeseen or hidden liabilities, including exposure to lawsuits associated with newly acquired companies;
- the diversion of resources from our existing business;
- disagreement with joint venture or strategic alliance partners;
- contravention of regulations governing cross-border investment;
- failure to comply with laws and regulations, as well as industry or technical standards of the overseas markets into which we expand;
- our inability to generate sufficient net sales to offset the costs and expenses of acquisitions, strategic investments, joint ventures or other strategic alliances;
- potential loss of, or harm to, employee or customer relationships;
- diversion of our management's time; and
- disagreements as to whether opportunities belong to us or the joint venture.

Any of these events could disrupt our ability to manage our business, which in turn could have a material adverse effect on our financial condition and results of operations. Such risks could also result in our failure to derive the intended benefits of the acquisitions, strategic investments, joint ventures or strategic alliances, and we may be unable to recover our investment in such initiatives.

Unanticipated changes in our tax provisions, the adoption of a new U.S. tax legislation, or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in the United States and the foreign jurisdictions in which we operate. Our tax liabilities are affected by the amounts we charge for intercompany transactions. We are subject to potential tax examinations in these various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other tax positions and assess additional taxes. We regularly assess the likely outcomes of these examinations in order to determine the appropriateness of our tax provision in accordance with ASC 740, Income Taxes. However, there can be no assurance that we will accurately predict the outcomes of these potential examinations, and the amounts ultimately paid upon resolution of examinations could be materially different from the amounts previously included in our income tax expense and therefore, could have a material impact on our tax provision, net earnings, and cash flows. In addition, our future effective tax rate could be adversely affected by changes to our operating structure, loss of our Malaysian tax holiday, changes in

the mix of earnings, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, and the discovery of new information in the course of our tax return preparation process.

We have received financial incentives from government bodies in certain foreign jurisdictions that are based on the maintenance of various requirements. If such requirements are not maintained, we may lose the financial incentives, which could negatively impact our results of operations and financial condition.

We have received financial incentives from government entities in certain foreign jurisdictions that are based on the maintenance of various requirements. For example, our Spanish subsidiary has received grants for production equipment that requires us to maintain a specific level of employment and use of assets. In addition, we also have a tax holiday in Malaysia through 2019. The tax holiday is based on our Malaysian subsidiary meeting certain metrics surrounding profitability, asset base and employment levels.

If we do not satisfy these requirements in the future, we may not qualify for future incentives or may be required to refund a portion of previously granted incentives, which could negatively impact our results of operations and financial condition.

The acquisition of control of us by Zhenfa, a Chinese company, may expose us to greater regulatory scrutiny.

At various times during recent years, the governments of the United States and China have had disagreements over political and economic issues. Controversies may arise in the future between these two countries. Any political or trade controversies between the United States and China could adversely affect our ability to successfully implement our Chinese strategy, the market price of our common stock and our ability to access the capital markets in United States. Also, as a result of recent controversies involving Chinese controlled companies, it is possible that such companies have come under increased scrutiny in the United States and other countries. If we become subject to enhanced regulatory review and oversight, responding to such review and oversight may be expensive and time consuming and may have a material adverse effect on our operations, even if we otherwise have complied with all legal and regulatory requirements.

We may fail to realize some or all of the anticipated benefits of the transaction with Zhenfa, which could result in substantial net losses and may adversely affect the value of our common stock.

The success of the transaction with Zhenfa will depend, in part, on our ability to realize the anticipated benefits from our strategic alliance with Zhenfa contemplated by the transaction, including the benefits anticipated from Zhenfa's assistance to us under the Sales Service Agreement in marketing and selling our products to China-based solar module manufacturers, collecting accounts receivable in a timely manner and in otherwise conducting business in China. We have not previously conducted business with Zhenfa, and we cannot assure that we will be able to cooperate effectively under the Sales Service Agreement or otherwise. Overall coordination with the Zhenfa Group may also be a complex and time-consuming process. Such coordination may be further complicated by geographical, language and cultural differences. Even with proper planning and timely coordination, we cannot assure that we can achieve any anticipated benefits of the Transaction on a timely basis, if at all, or that we will otherwise be successful in expanding our business in China. Failure to achieve the expected benefits from the transaction could result in continuing substantial net losses and adversely affect the value of our common stock.

The Purchase Agreement contains certain indemnification obligations that could result in substantial liabilities if we are required to indemnify the Purchaser.

Pursuant to the Purchase Agreement, all covenants, agreements, representations and warranties made by the parties in the Purchase Agreement will survive for a period of 12 months following

December 15, 2014 (the “Closing Date”). From and after the Closing Date, and subject to the terms, conditions and limitations set forth in the Purchase Agreement, we will indemnify, hold harmless and defend the Purchaser and its officers, directors and affiliates, referred to collectively as the Purchaser Indemnified Parties, against any adverse consequences resulting from or arising out of a breach of our representation or warranties (as of the date made or as of the Closing Date, as applicable) or covenants contained in the Purchase Agreement. Other than instances of willful material misconduct or fraud, we will not, however, be liable for any adverse consequences unless and until the aggregate amount of adverse consequences exceed \$1.0 million. In this case, the indemnified parties will be entitled to indemnification for all losses incurred by them that are in excess of this amount, subject to a limit on our maximum aggregate liability of \$4.0 million. If any material indemnification obligations are triggered pursuant to the Purchase Agreement, our financial condition could be materially and adversely affected.

Certain of our directors and officers’ may be located outside of the United States.

Certain of our directors are not, and over the course of time, officers, may not be United States citizens or may reside out of the United States. It may not be possible for our stockholders to effect service of process upon our directors within the United States, to bring action against our directors or to enforce against our directors court judgments based on the civil liabilities provisions of the federal securities laws of the United States. Further, it is unclear if extradition treaties now in effect between the United States and China (and, for the matter, any other country that one of our directors may be a citizen of or reside in) would permit effective enforcement against our directors, outside of the United States, of criminal penalties, under the United States Federal securities laws or otherwise.

Risks Related to Owning Our Common Stock

We are subject to the Continued Listing Criteria of the New York Stock Exchange and our failure to satisfy these criteria may result in delisting of our common stock.

Our common stock is currently listed on the New York Stock Exchange (the “NYSE”). In order to maintain this listing, we must maintain certain share prices, financial and share distribution targets, including maintaining a minimum amount of stockholders’ equity and a minimum number of public stockholders. In particular, the NYSE has the authority to delist our common stock if, during any period of 30 consecutive trading days, the average closing share price falls below \$1.00 or the average market capitalization of our common stock falls below \$50.0 million and, at the same time, total stockholders’ equity is less than \$50.0 million, and in either case, we are unable to satisfy these standards within the time periods specified under NYSE regulations. The market capitalization of our Common Stock is currently below the \$50.0 million threshold. Our total stockholders equity was \$57.7 million and \$111.9 million as of December 31, 2014 and 2013, respectively. In addition to these objective standards, the NYSE may delist the securities of any issuer if, in its opinion, the issuer’s financial condition and/or operating results appear unsatisfactory; if it appears that the extent of public distribution or the aggregate market value of the security has become so reduced as to make continued listing on the NYSE inadvisable; if the issuer sells or disposes of principal operating assets or ceases to be an operating company; if an issuer fails to comply with the NYSE listing requirements; if an issuer’s common stock sells at what the NYSE considers a “low selling price” and the issuer fails to correct this via a reverse split of shares after notification by the NYSE; or if any other event occurs or any condition exists which makes continued listing on the NYSE, in its opinion, inadvisable.

We received notification on January 23, 2015, that we were not in compliance with NYSE Listed Company Manual Section 802.01C because the average closing price of the our common stock was less than \$1.00 for 30 consecutive trading days. Accordingly, we were subject to the procedures specified in Section 802.01C, which provides, among other things, that we must bring our share price and average share price above \$1.00 within six months following receipt of notification of noncompliance. We have taken action to cure this deficiency, including implementing a reverse stock split effected January 30, 2015, however there can be no guarantee that our stock price will remain above \$1.00 in the future.

If our common stock is delisted from the NYSE in the future, such securities may be traded over-the-counter on the “pink sheets.” The alternative market, however, is generally considered to be less efficient than, and not as broad as, the NYSE. Accordingly, delisting of our common stock from the NYSE could have a significant negative effect on the value and liquidity of our securities. In addition, the delisting of such stock could adversely affect our ability to raise capital on terms acceptable to us or at all. In addition, delisting of our common stock may preclude us from using exemptions from certain state and federal securities regulations, including the SEC’s “penny stock” rules.

We expect that our stock price may continue to fluctuate significantly, which could cause the value of your investment to decline, and you may not be able to resell your shares at or above your purchase price.

Over the past few years the market prices of many companies in the solar industry have been extremely volatile. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our common stock regardless of our operating performance. The trading price of our common stock is likely to continue to be volatile and subject to wide price fluctuations in response to various factors, including:

- actual or anticipated fluctuations in our financial and operating results, including our cash balance;
- market conditions in the broader stock market;
- potential short selling interest in our common stock;
- the amount of public float that trades regularly;
- introduction of new products by us or our competitors;
- issuance of new or changed securities analysts’ reports or recommendations;
- investor perceptions of us and the solar energy industry;
- sales, or anticipated sales, of large blocks of our stock;
- potential action of corporate raiders or other potential acquirers of us if our stock price is undervalued;
- additions or departures of key personnel;
- regulatory or political developments;
- litigation and governmental investigations; and
- changing economic conditions.

These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock or have become activist stockholders. If any of our stockholders brought a lawsuit against us, or become active with demands, we could incur substantial costs defending the lawsuit and responding to various requests. These events clearly could also divert the time and attention of our management from our business, which could significantly harm our profitability and reputation.

As a public company, we are subject to additional financial and other reporting and corporate governance requirements that may be difficult for us to satisfy.

Prior to November 2009, we operated our business as a private company. Since the completion of our initial public offering (“IPO”) in November 2009, we have been required to file with the SEC, annual and quarterly information and other reports that are specified in Section 13 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We are required to ensure that we have the ability to prepare financial statements that are fully compliant with all SEC reporting requirements on a timely basis. We are also subject to other reporting and corporate governance requirements, including the requirements of the NYSE, and certain provisions of the Sarbanes-Oxley Act of 2002 and the regulations promulgated thereunder, which impose significant compliance obligations upon us. If we fail to maintain the requirements with respect to our internal accounting and audit functions, our ability to report our operating results on a timely and accurate basis could be negatively affected.

We have implemented the standards required by Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”), and failure to maintain effective internal control over financial reporting in accordance with Section 404 could have a material adverse effect on us.

We have documented and tested our internal control procedures to satisfy the requirements of Section 404, which requires an annual management assessment of the effectiveness of our internal control over financial reporting. If we are unable to maintain adequate internal control over financial reporting, we may be unable to report our financial information on a timely basis and may suffer adverse regulatory consequences or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements.

If a substantial number of shares are sold in a short period of time, the market price of our common stock could decline.

If our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could decrease significantly. The perception in the public market that such stockholders might sell shares of common stock could also depress the market price of our common stock. As of February 27, 2015, we had 18,080,774 shares of our common stock outstanding, some of which are owned by our directors, executive officers and affiliates. Subject to vesting requirements, these shares are eligible for sale in the public market. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our stock or if our results of operations do not meet their expectations, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of us, which six analysts did in 2013, or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our stock, or if our results of operations do not meet their expectations, our stock price could decline.

Some provisions of Delaware law and our certificate of incorporation and bylaws may deter third parties from acquiring us and diminish the value of our common stock.

Our certificate of incorporation and bylaws provide for, among other things:

- restrictions on the ability of our stockholders to call a special meeting and the business that can be conducted at such meeting;
- restrictions on the ability of our stockholders to remove a director or fill a vacancy on the board of directors;
- our ability to issue preferred stock with terms that the Board of Directors may determine, without stockholder approval;
- the absence of cumulative voting in the election of directors;
- a prohibition of action by written consent of stockholders unless such action is recommended by all directors then in office; and
- advance notice requirements for stockholder proposals and nominations.

These provisions in our certificate of incorporation and bylaws may discourage, delay or prevent a transaction involving a change of control of us that is in the best interest of our minority stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging future takeover attempts.

Zhenfa, as the parent company of the Purchaser, beneficially owns a controlling interest in our Common Stock and controls our Board of Directors. As a result, it is able to exert significant influence over us, and Zhenfa's interests may conflict with the interests of our other stockholders.

As a result of the transaction with Zhenfa, the Purchaser, a wholly owned indirect subsidiary of Zhenfa, controls 51% of the voting power of our common stock, and is able to, subject to certain conditions set forth in the Purchase Agreement, control or exert substantial influence over us, including the election of our directors and most matters requiring board or stockholder approval, including business strategies, mergers, business combinations, acquisitions or dispositions of significant assets, issuances of common stock, incurrence of debt or other financing and the payment of dividends. The controlling stockholder may have the effect of making it difficult for a third party to seek, or may discourage or delay a third party from seeking, to acquire a majority of our outstanding common stock, which could adversely affect the market price of our stock. Zhenfa will maintains separate business operations from us. As a result, Zhenfa's interests may not always be consistent with the interests of our other stockholders. To the extent that conflicts of interest may arise among us, Zhenfa and its affiliates, those conflicts may be resolved in a manner adverse to our other stockholders.

ITEM 1B. Unresolved Staff Comments

Not applicable.

ITEM 2. Properties

Our principal executive offices are located at 10 Water Street, Enfield, Connecticut, 06082.

The following table summarizes information regarding our significant owned and leased facilities as of December 31, 2014:

<u>Location</u>	<u>Square Feet</u>	<u>Owned/Leased</u>
Johor, Malaysia	142,270	Owned
Asturias, Spain	105,000	Owned
10 Water Street, Enfield, Connecticut	69,500	Owned
Shajiang, China	57,500	Leased

From time to time, we evaluate our production requirements and may close or consolidate existing facilities or open new facilities.

In 2013, we ceased production at our East Windsor, Connecticut facility. We sold this facility in October 2014 and relocated our corporate headquarters and research and development functions to our 10 Water Street, Enfield, Connecticut facility. In conjunction with the divestiture of the Quality Assurance (“QA”) business, we leased real property located at 10 Water Street, Enfield, Connecticut to a subsidiary of UL through December 31, 2012. Prior to the closing of the divestiture, the property served as the QA headquarters and a testing facility. Refer to Item 7, —Management’s Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

ITEM 3. Legal Proceedings

From time to time, we are and have been a party to litigation that arises in the ordinary course of our business. We have no material litigation pending at this time.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

At February 27, 2015, there were approximately 7 holders of record of our common stock.

The table below sets forth the high and low sales prices per share of our common stock reported on the NYSE for the periods indicated. These amounts have been recasted to reflect the one-for-three reverse stock split which became effective on January 30, 2015.

		Common Stock Price Range	
		High	Low
Fiscal 2014			
1 st Quarter	.....	\$5.55	\$3.93
2 nd Quarter	.....	5.01	3.42
3 rd Quarter	.....	5.25	2.40
4 th Quarter	.....	4.47	3.30
		Common Stock Price Range	
		High	Low
Fiscal 2013			
1 st Quarter	.....	\$ 9.36	\$5.76
2 nd Quarter	.....	10.29	5.40
3 rd Quarter	.....	8.37	4.83
4 th Quarter	.....	8.07	3.66

Dividend Program

In connection with the Closing, we paid a special dividend (the “Special Dividend”) to all of our stockholders of record (other than the Purchaser) in an amount equal to \$2.55 per share on January 2, 2015.

Other than the Special Dividend, we have not declared or paid cash dividends on our Common Stock during the two most recent fiscal years. Any future determination to pay dividends will be at the discretion of our Board of Directors and will take into account:

- our financial condition and results of operations;
- general economic and business conditions;
- our capital requirements;
- the ability of our operating subsidiaries to pay dividends and make distributions to us; and
- such other factors as our Board of Directors may deem relevant.

Issuer Purchases of Equity Securities

On January 31, 2014, we commenced a modified “Dutch auction” tender offer (the “Offer”) to repurchase for cash up to \$30.0 million of shares of our common stock. The Offer allowed stockholders to indicate how many shares and at what price within the offer range (in increments of \$0.15 per share) they wished to sell their shares to us, if at all. On February 18, 2014, in response from comments from the SEC, we increased the minimum tender price in the Offer from \$3.00 to \$4.05, but the upper limit

of the Offer range remained unchanged at \$4.62 per share. We also extended the expiration date for the Offer from February 28, 2014 to March 3, 2014.

On March 3, 2014, the Offer expired and a total of 5.2 million shares were tendered at prices within the offer range. Based upon the number of shares tendered and the prices specified by the tendering stockholders, the applicable purchase price was \$4.62 per share. As a result, we used a portion of our cash and cash equivalents to purchase and retire such shares of our common stock for an aggregate purchase price of \$24.0 million excluding fees and expenses of \$2.4 million associated with the Offer.

Reverse Stock Split

On January 30, 2015, we effected a one-for-three reverse split of our common stock and our common stock.

ITEM 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial data for the periods and as of the dates indicated. The balance sheet data as of December 31, 2014, 2013, 2012, 2011 and 2010 and the statement of operations and other data for each of the years ended December 31, 2014, 2013, 2012, 2011 and 2010 are derived from our Consolidated Financial Statements. All amounts are stated in thousands except per share amounts unless otherwise noted. Per-share amounts for all periods reflect the one-for-three reverse stock split effected January 30, 2015.

The basic and diluted net (loss) earnings per share from continuing operations and weighted-average shares outstanding data in the selected historical consolidated financial data table presented below give effect to our (i) reverse stock split of our common stock at a ratio of one share-for-every three shares of the outstanding common stock and (ii) sale of our former QA business.

On September 1, 2011, we closed on the sale of our QA business to UL in exchange for \$275.0 million in cash, plus assumed cash. Prior to the sale, QA was one of our reportable segments. The QA segment's historical results of operations are now presented as a discontinued operation with its assets and liabilities treated as held for sale for all earlier periods presented.

The results indicated below and elsewhere in this Annual Report are not necessarily indicative of our future performance. You should read this information together with Item 7—Management's

Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K.

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Statement of Operations:					
Net sales	\$ 39,288	\$ 31,860	\$ 95,345	\$232,431	\$259,200
Operating (loss) income	<u>\$(19,709)</u>	<u>\$(25,235)</u>	<u>\$(283,485)</u>	<u>\$(24,597)</u>	<u>\$ 82,194</u>
Net (loss) earnings from continuing operations	\$(22,733)	\$(18,286)	\$(211,575)	\$(39,428)	\$ 54,749
(Loss) earnings from discontinued operations	\$ (884)	\$ —	\$ 4,228	\$ 38,124	\$ (5,438)
Net (loss) earnings	<u>\$(23,617)</u>	<u>\$(18,286)</u>	<u>\$(207,347)</u>	<u>\$ (1,304)</u>	<u>\$ 49,311</u>
Net (loss) earnings per share					
Basic from continuing operations	\$ (2.08)	\$ (1.32)	\$ (15.37)	\$ (2.89)	\$ 4.08
Basic from discontinued operations	(0.08)	—	0.31	2.79	(0.41)
Basic	<u>\$ (2.16)</u>	<u>\$ (1.32)</u>	<u>\$ (15.06)</u>	<u>\$ (0.10)</u>	<u>\$ 3.67</u>
Diluted from continuing operations	\$ (2.08)	\$ (1.32)	\$ (15.37)	\$ (2.89)	\$ 3.90
Diluted from discontinued operations	(0.08)	—	0.31	2.79	(0.39)
Diluted	<u>\$ (2.16)</u>	<u>\$ (1.32)</u>	<u>\$ (15.06)</u>	<u>\$ (0.10)</u>	<u>\$ 3.51</u>
Goodwill impairment	\$ —	\$ —	\$ 82,524	\$ 63,948	\$ —
Intangible asset impairment	\$ —	\$ —	\$ 135,480	\$ —	\$ —
Asset impairment	\$ —	\$ 194	\$ 37,431	\$ 1,861	\$ —
Restructuring	\$ (356)	\$ 4,331	\$ 1,069	\$ 308	\$ —
Capital investments	\$ 3,115	\$ 2,238	\$ 10,677	\$ 21,537	\$ 16,061
Cash	\$ 16,552	\$ 58,173	\$ 81,985	\$ 58,794	\$ 98,333
Total assets	\$ 69,802	\$129,209	\$ 147,164	\$402,091	\$702,846
Total debt	\$ —	\$ —	\$ —	\$ —	\$238,525
Total stockholders' equity	\$ 57,723	\$111,862	\$ 127,439	\$330,505	\$328,040
Repurchase of common stock	\$(26,429)	\$ —	\$ —	\$ (57)	\$ —
Special dividend	\$(22,580)	\$ —	\$ —	\$ —	\$ —
Proceeds from equity issuance	\$ 18,204	\$ —	\$ —	\$ —	\$ —

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of our operations should be read together with Item 6-Selected Financial Data and our Consolidated Financial Statements and the related Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. This discussion contains forward-looking statements, based on current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under Item 1A,—Risk Factors in this Annual Report on Form 10-K.

Explanatory Note: All share amounts and per share amounts below have been adjusted to reflect the one-for-three reverse stock split effected as of January 30, 2015.

Forward-Looking Statements

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to inherent risks and uncertainties. These forward-looking statements present our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business and are based on assumptions that we have made in light of our industry experience and perceptions of historical trends, current conditions, expected future developments and other factors management believes are appropriate under the circumstances. However, these forward-looking statements are not guarantees of future performance or financial or operating results. Forward-looking statements include, but are not limited to, the statements regarding the following: (1) incurring substantial losses for the foreseeable future and our inability to achieve or sustain profitability in the future; (2) the potential impact of pursuing strategic alternatives, including dissolution and liquidation of our Company; (3) our reliance on a single product line; (4) our securing net sales to new customers, growing net sales to existing key customers and increasing our market share, particularly in China; (5) customer concentration in our business and our relationships with and dependence on key customers; (6) the outsourcing arrangements and reliance on third parties for the manufacture of a portion of our encapsulants; (7) technological changes in the solar energy industry or our failure to develop and introduce or integrate new technologies could render our encapsulants uncompetitive or obsolete; (8) competition; (9) our failure to manufacture product in China negatively affecting our ability to sell to Chinese solar module manufacturers; (10) excess capacity in the solar supply chain; (11) demand for solar energy in general and solar modules in particular; (12) our operations and assets in China being subject to significant political and economic uncertainties; (13) limited legal recourse under the laws of China if disputes arise; (14) our ability to adequately protect our intellectual property, particularly during the outsource manufacturing of our products in China; (15) our lack of credit facility and our inability to obtain credit; (16) a significant reduction or elimination of government subsidies and economic incentives or a change in government policies that promote the use of solar energy, particularly in China and the United States; (17) volatility in commodity costs; (18) our customers’ financial profile causing additional credit risk on our accounts receivable; (19) our dependence on a limited number of third-party suppliers for raw materials for our encapsulants and other significant materials used in our process; (20) potential product performance matters and product liability; (21) our substantial international operations and shift of business focus to emerging markets; (22) the impact of changes in foreign currency exchange rates on financial results, and the geographic distribution of revenues; (23) losses of financial incentives from government bodies in certain foreign jurisdictions; (24) compliance with the Continued Listing Criteria of the NYSE; (25) the ability to realize synergies from the transaction with Zhenfa; and (26) the other risks and uncertainties described under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in subsequent periodic reports on Form 10-K, 10-Q and 8-K. You are urged to carefully review and consider the disclosure found in our filings which are available on

<http://www.sec.gov> or <http://www.strsolar.com>. Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove to be incorrect, actual results may vary materially from those projected in these forward-looking statements. We undertake no obligation to publicly update any forward-looking statement contained in this Annual Report, whether as a result of new information, future developments or otherwise, except as may be required by law.

Overview

We were founded in 1944 as a plastic and industrial materials research and development company and evolved into two core businesses: solar encapsulant manufacturing and quality assurance services. We launched our former Quality Assurance business (“QA”) in 1973 and we commenced sales of our solar encapsulant products in the late 1970s.

We are a provider of encapsulant to the solar module industry. Encapsulant is a critical component used in solar modules. Our PhotoCap® products consist of ethylene-vinyl acetate (“EVA”), which is modified with additives and put through our proprietary extrusion manufacturing process to increase product stability and make the encapsulant suitable for use in extreme, long-term outdoor applications. Our encapsulants can be used in both crystalline silicon and thin-film solar modules. To date, over 20 GW worth of solar modules utilizing our encapsulants have been installed in the field with no reported module power performance issues being caused by our encapsulants.

Prior to its divestiture in September 2011, QA provided product development, inspection, testing and audit services that enabled retailers and manufacturers to determine whether products met applicable safety, regulatory, quality, performance and social standards.

Strategic Divestiture of QA

On September 1, 2011, we completed the sale of QA to Underwriters Laboratories, Inc. (“UL”). This strategic divestiture was executed to allow us to focus exclusively on the solar encapsulant opportunity and to seek further product offerings related to the solar industry, as well as other growth markets related to our polymer manufacturing capabilities, and to retire our long-term debt. The following transactions occurred as a result of the divestiture:

- We received \$275.0 million, plus assumed cash in proceeds. The sale generated an after-tax gain of approximately \$14.0 million that included an initially estimated tax liability of \$105.9 million. This gain was recorded in discontinued operations in the Consolidated Statements of Comprehensive Income and the proceeds received were recorded in discontinued operations in the Consolidated Statements of Cash Flows in 2011. During the third quarter of 2012, the taxable gain associated with the sale of the QA business was finalized in conjunction with filing our 2011 income tax returns. As part of this process, we recorded an income tax benefit to discontinued operations of \$4.2 million. Refer to Note 3 to the Consolidated Financial Statements located in Item 8—Financial Statements and Supplementary Data of this Annual Report on Form 10-K.
- In order to sell the assets of the QA business free and clear of liens provided pursuant to our first lien credit agreement and second lien credit agreement (together, the “2007 Credit Agreements”), we terminated the 2007 Credit Agreements on September 1, 2011 by using approximately \$237.7 million of the sale proceeds to repay all amounts outstanding thereunder to Credit Suisse AG as administrative and collateral agent.

QA’s historical operating results are recorded in discontinued operations in the Consolidated Statements of Comprehensive Loss and Cash Flows for all periods presented where applicable.

The discussion contained herein relates to continuing operations unless otherwise noted.

Current Business Environment, Components of Net Sales and Expenses and Anticipated Trends

Strategic Focus

For several years, we have been working to increase our market share in China through investments in people, research and development and facilities. Firstly, we increased our Chinese sales and technical service teams to develop sound customer relationships at the tactical level and provide customer service in the local language, custom and time zone. Secondly, we invested in research and development to broaden the process window of our encapsulant products for use in Chinese module production processes, which differ from those found in the western markets we have historically supplied. Broadening our process window, while also maintaining and optimizing our high-quality performance attributes of long-term stability, low shrinkage, high light transmission and PID resistance, took significant effort and time. As a result of these efforts, we have now passed internal and external qualification testing with many of the leading Chinese module manufacturers. Thirdly, we invested in local manufacturing in China to shorten the order fulfillment cycle and to comply with customer demand for domestic production. As discussed above, our subsidiary, STR Solar (Hong Kong), Limited, entered into a Manufacturing Agreement with FeiYu, under which FeiYu will manufacture certain of our encapsulant products to our specification. FeiYu currently has approximately 1.0 GW of annual active manufacturing capacity. In addition, we have built out our own leased 57,500 square foot manufacturing facility located in Shajiang, China. This facility became operational in the fourth quarter of 2014 with 1.2 GW of initial production capacity.

We believe that these initiatives contributed to our 23% increased net sales in 2014 compared to 2013. Notwithstanding the increased net sales, we continue to operate at a substantial net loss. Accordingly, we must continue to increase net sales to cover our current and anticipated operating expenses, and to achieve or sustain profitability in the future. We incurred net losses from continuing operations of approximately \$22.7 million, \$18.3 million and \$211.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. Net of non-cash impairments, net (losses) profit from continuing operations were (\$22.7) million, (\$18.1) million, and \$43.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Given the challenges we have faced in China, we have, for some time, sought to align with Chinese companies engaged in the solar industry. Our transactions with Zhenfa, in addition to providing a substantial cash dividend for our stockholders, have provided us with a strategic alliance in China to assist us in the highly competitive Chinese solar encapsulant manufacturing market.

Zhenfa is a leading solar systems integrator, engineering, procurement, and construction company and solar power station owner-operator within China. At the end of 2013, Zhenfa and its affiliates (collectively, the “Zhenfa Group”) had developed and installed approximately two gigawatts of solar power in China, including unique utility scale solar projects in which solar arrays are constructed and utilized in conjunction with fisheries in intertidal zones and agricultural projects in desertification areas. The Zhenfa Group holds Chinese patents in a self-adaptive sun tracking system for solar arrays that increases the efficiency of solar projects by up to 25% over fixed-mount systems, and in 2013 won a bid to construct a 13 megawatt ground-mounted solar project in Canberra, Australia.

We entered into the transaction with Zhenfa for the following strategic considerations:

- China has become one of the world’s largest solar module manufacturing markets. We have struggled to effectively penetrate that market in order to compete effectively. The Zhenfa Group is owned and headquartered in China and represents a significant customer of many top-tier Chinese module manufacturers;
- The Transaction should enhance our presence in China and could significantly improve our operating results if the Zhenfa Group were to be successful in assisting us in marketing and selling our products to China-based solar module manufacturers;

- The Sales Service Agreement contemplates that the Zhenfa Group will provide us the opportunity to lease on favorable terms a manufacturing facility in China, and other valuable assistance in doing business in China; and
- Given our complementary businesses and geographic locations, additional opportunities may be available to expand our mutual cooperation throughout the solar value chain.

Transaction with Zhenfa

We have entered into certain definitive agreements with Zhenfa Energy Group Co., Ltd., a Chinese limited liability company (“Zhenfa”) and its indirect wholly-owned subsidiary, Zhen Fa New Energy (U.S.) Co., Ltd., a Nevada corporation (the “Purchaser”).

Purchase Agreement and Special Dividend

On August 11, 2014, we entered into a Stock Purchase Agreement (the “Purchase Agreement”) with the Purchaser, pursuant to which we agreed to issue and sell to the Purchaser, and the Purchaser agreed to purchase from us, an aggregate of approximately 9.2 million shares (the “Purchased Shares”) of our common stock, to the Purchaser for an aggregate purchase price (“Purchased Price”) of approximately \$21.7 million, or \$2.35 per share (the “Transaction”). The Purchased Shares represented approximately 51% of our outstanding shares of common stock upon the closing of the Transaction (the “Closing”), which occurred on December 15, 2015.

In connection with the Closing, we declared a special dividend (the “Special Dividend”) on December 11, 2014 to be paid to all of our stockholders of record (other than the Purchaser) in an amount equal to \$2.55 per common share on January 2, 2015. The cash used to pay the Special Dividend was paid to our transfer agent as of December 31, 2014.

Sales Service Agreement

In connection with the execution of the Purchase Agreement, Specialized Technology Resources, Inc., a subsidiary of ours, entered into a sales service agreement (the “Sales Service Agreement”) with Zhenfa, whereby Zhenfa agreed, among other things, to assist us in a number of endeavors, including, without limitation, marketing and selling our products in China, acquiring local raw materials, hiring and training personnel in China, and complying with Chinese law. The Sales Service Agreement became effective on the date of Closing, has an initial term of two years following the date of Closing and is automatically extended for one year periods unless terminated earlier. The Sales Service Agreement may also be terminated by either party at such time as Zhenfa Group and its affiliates own less than 10% of our outstanding Common Stock.

For further information on the Purchase Agreement, Sales Service Agreement, the Transaction or Zhenfa refer to the proxy filed on October 8, 2014 with the SEC.

Net Sales

Our net sales are derived from the sale of encapsulants to solar module manufacturers. Net sales to our customers are typically made through non-exclusive, short-term purchase order arrangements that specify prices and delivery parameters but do not obligate the customer to purchase any minimum amounts. Our customers are solar module manufacturers located in North America, Europe and Asia.

We expect that our results of operations for the foreseeable future will depend primarily on the sale of encapsulants to a relatively small number of customers. We believe the concentration will increase as we expect a consolidation of module manufacturers driven by overcapacity that currently exists. Our top five customers accounted for approximately 64%, 64% and 61% of our net sales in 2014, 2013 and 2012, respectively. First Solar accounted for 18% and 41% of our net sales for the years

ended December 31, 2013 and 2012, respectively. In January 2013, we were informed by our then largest customer, First Solar, that it would commence sourcing encapsulant from an alternate supplier in the first half of 2013. We recorded approximately \$5.7 million of net sales to First Solar in the first half of 2013. We did not generate net sales to First Solar during 2014. ReneSola accounted for approximately 37% of our net sales for the year ended 2014. First Solar, ReneSola, Conergy AG and Global Wedge, Inc. each accounted for at least 10% of our net sales, and in the aggregate accounted for approximately 56% of our net sales for the year ended 2013.

Our net sales are significantly driven by end-user demand for solar modules. As more solar modules are sold, there is greater demand from module manufacturers for encapsulants. The solar power industry is impacted by a variety of factors, including government subsidies and incentives, availability of financing, worldwide economic conditions, environmental concerns, energy costs, the availability of polysilicon and other factors. A key demand driver for solar module growth in the future will be the ability of solar module manufacturers and downstream solar system installers to reduce their cost structure, primarily in the balance of system cost components such as inverters, installation costs, wiring, racking and logistics. During 2011, capacity expansion in the solar module supply chain increased. Increased competition, particularly from China, and continued vertical integration of many manufacturers in the solar supply chain contributed to the increase in capacity. These events caused many module manufacturers to significantly reduce the average selling price of their modules as the extra capacity drove a severe inventory build. As a result, many companies in the solar supply chain lacked profitability. From an industry standpoint, the reduction in module selling prices has improved rates of return on solar investments for the end-user. We believe this is a long-term industry trend will help to bring solar energy costs closer to grid-parity and in turn will increase demand for solar encapsulants. From 2012 through 2014, industry consolidation continued and the amount of excess capacity has been significantly reduced, but still exists. In addition, the rate of price declines appears to have recently stabilized in many areas of the solar supply chain.

Demand for our encapsulants also depends in large part on government incentives aimed to promote greater use of solar energy. The type of government incentives vary from country to country and can change rapidly. As the solar industry continues to reduce the cost of solar power, we expect the level of government subsidies to continue to decrease.

Even though we expect reduced solar module demand in the European Union and the continued reduction in government subsidies in the next few years, we anticipate an increase in global demand for solar energy, particularly in China and the United States. This will be primarily driven by solar energy becoming more cost effective as a result of continued cost reductions in module selling prices and balance of system costs and continued emergence of end-user financing. In addition, many foreign governments like India, Taiwan and Japan, as well as certain state regulatory entities, have enacted renewable portfolio standards that require utilities to increase their production of energy from renewable sources.

Pricing of our encapsulants is impacted by the competition faced by our customers, and the quality and performance of our encapsulant formulations, including their impact on improving our customers' manufacturing yields, their historical in-field performance, our ability to meet our customers' delivery requirements, overall supply and demand levels in the industry and our customer service and technical support. Historically, we typically priced our encapsulants at a premium to our competition based on product attributes that among other benefits provide a high value proposition to our customers in a period of tight capacity. During the past few years, however the excess capacity that existed at most module manufacturers has reduced the value proposition of the throughput and other production efficiencies that our encapsulants provide and has caused encapsulant cost to become a more important factor in the procurement process for many customers. In addition, low-cost competition from China and increased entrants in the encapsulant market have intensified competition. Based on these factors,

we experienced an average selling price (“ASP”) decline during 2014 of approximately 22% from the prior year.

For several years, we have been working to increase our market share in China through investments in people, research and development and facilities. Firstly, we increased our Chinese sales and technical service teams to develop sound customer relationships at the tactical level and provide customer service in the local language, custom and time zone. Secondly, we invested in research and development to broaden the process window of our encapsulant products for use in Chinese module production processes, which differ from those found in the western markets we have historically supplied. Broadening our process window, while also maintaining and optimizing our high-quality performance attributes of long-term stability, low shrinkage, high light transmission and PID resistance, took significant effort and time. As a result of these efforts, we have now passed internal and external qualification testing with many of the leading Chinese module manufacturers. Thirdly, we invested in local manufacturing in China to shorten the order fulfillment cycle and to comply with customer demand for domestic production. As discussed above, our subsidiary, STR Solar (Hong Kong), Limited, entered into a Manufacturing Agreement with FeiYu, under which FeiYu will manufacture certain of our encapsulant products to our specification. FeiYu currently has approximately 1.0 GW of annual active manufacturing capacity. In addition, we have built out our own leased 57,500 square foot manufacturing facility located in Shajiang, China. This facility became operational in the fourth quarter of 2014 with 1.2 GW of initial production capacity.

In addition to the above items, we entered into the strategic transaction with Zhenfa to help us increase our net sales in China. The Zhenfa Group is owned and headquartered in China and represents a significant customer of many top-tier Chinese module manufacturers that we have been trying to sell to. We believe that the Transaction should enhance our presence in China and could significantly improve our operating results if the Zhenfa Group were to be successful in assisting us in marketing and selling our products to China-based solar module manufacturers.

The future growth and success in our business depends on the ability of our customers to grow their businesses and our ability to meet any such growth and to grow by adding new customers. If our customers do not increase production of solar modules, there will be no corresponding increase in encapsulant orders. It is possible that our customers may reduce their purchases from us. If our customers do not grow their businesses or they find alternative sources for encapsulants to meet their demands, it could limit our ability to grow our business and increase our net sales. In addition, we have been actively attempting increase our market share in China. Although we intend to obtain and grow our market share with Chinese module manufacturers, failure to do so could negatively affect our financial condition and results of operations.

Cost of Sales

Cost of sales consists of our costs associated with raw materials, direct labor, manufacturing overhead, salaries, other personnel-related expenses, write-offs of excess or obsolete inventory, quality control, freight, insurance, disposition of defective product and depreciation of fixed assets. In 2012, our cost of sales also included amortization of intangibles as a result of DLJ Merchant Banking Partners IV, L.P.’s acquisition of us in 2007 (“DLJ Acquisition”). The intangible assets were fully impaired as of December 31, 2012. Approximately 81% of our cost of sales is variable in nature; 12% is step-variable and relates to direct labor cost and is fixed in the short-term and the remaining 7% is fixed. Resin constitutes the majority of our raw materials costs at approximately 50% of our cost of sales, and paper liner is the second largest cost. We are in the process of modifying our production equipment to remove paper from our bill of material to reduce costs. The price and availability of resin and paper liner are subject to market conditions affecting supply and demand, have been volatile and we believe resin cannot be effectively hedged in the commodity markets.

Prior to 2014, we manufactured all of the products that we sold. In January 2014, our Hong Kong subsidiary entered into the Manufacturing Agreement. Pursuant to the Manufacturing Agreement, certain of our solar encapsulant products will be manufactured by FeiYu to our specifications. We will supply the Manufacturer with all of the proprietary information and assistance necessary to manufacture the products.

Overall, we expect our cost of sales, as a percentage of net sales, to decrease over the long-term. We expect to improve our cost structure to more than offset anticipated further reductions of average selling price of our encapsulants in response to lower overall module pricing driven by increased competition faced by our customers and ourselves. We believe we can improve our cost structure from current levels by: (i) decreased raw material costs due to active negotiations with our suppliers, favorable resin market dynamics and the removal of paper liner from our manufacturing process, (ii) more efficient absorption of fixed costs driven by economies of scale when expected sales growth resumes in 2015, (iii) improved raw material utilization and yield and (iv) continued other cost reduction efforts.

Gross Profit

Gross profit is affected by numerous factors, including our average selling prices, fluctuations in foreign exchange rates, seasonality, our manufacturing costs and the effective utilization of our facilities. Another factor impacting gross profit is the time required for new production facilities and the expansion of existing facilities to reach full production capacity. In 2012, accelerated depreciation increased by \$2.3 million due to the shortened useful lives of certain production equipment based on expected lower capacity utilization level. We also incurred \$(0.1) million, \$1.7 million and \$0.9 million of restructuring charges recorded in cost of sales associated with our recent cost reduction efforts in 2014, 2013 and 2012 respectively. During 2014, we recorded a gross loss primarily due to lower yield associated with product introductions and frequent production line change overs due to smaller and more frequent production runs, poor absorption at all of our facilities due to low volume and our China leased facility start-up costs.

Selling, General and Administrative Expenses (“SG&A”)

Our selling expenses consist primarily of salaries, travel and other personnel-related expenses for employees engaged in sales, marketing and support of our products and services, trade shows and promotions. General and administrative expenses consist mainly of insurance, outside professional fees and expenses for our finance, administrative, information technology, legal and human resource functions.

During 2014, we received notification that we fulfilled the necessary Spanish grant requirements provided by the government and in turn reversed \$0.2 million of restructuring charges initially recorded in 2012. We incurred \$(0.5) million, \$2.6 million and \$0.2 million of restructuring charges in SG&A during 2014, 2013 and 2012, respectively.

We expect our selling, general and administrative expenses to decrease as a percentage of net sales as a result of recent cost reduction actions and expected improved operating leverage from expected higher sales volumes.

Research and Development Expense

We have a long history of innovation dating back to our establishment in 1944 as a plastic and polymer research and development firm. As our operations expanded from solely providing research and development services into the manufacturing of solar encapsulants, we created a separate research and development function that tracks employees and costs that are fully dedicated to research and development activities. Our research and development expense consists primarily of salaries and fringe

benefit costs and the cost of materials and outside services used in our pre-commercialization process and product development efforts. We also record depreciation expense for equipment that is used specifically for research and development activities.

We incurred \$1.2 million, \$2.7 million and \$4.4 million of research and development expense in 2014, 2013 and 2012, respectively. We expect annual research and development expense to approximate \$1.5 million for the near-term based upon cost reduction measures implemented in 2013. We expect to gradually increase our investment in research and development expense if we return to profitability.

Provision for Bad Debt Expense

We reserve for estimated losses that may result from the inability of our customers to make required payments. We review the collectability of our receivables on an ongoing basis and reserve for uncollectible accounts after reasonable collection efforts have been made and collection is deemed doubtful.

Our bad debt expense in recent years was the result of many solar module manufacturers declaring bankruptcy due to continued solar industry consolidation. We expect our bad debt expense to decrease going forward as the solar industry transitions to a sustainable, self-supporting industry. In addition, we plan to increase the use of obtaining bank acceptance notes from certain of our customers to mitigate credit risk.

Interest (Expense) Income, Net

Interest (expense) income, net was comprised of interest income earned on our cash and cash equivalents and our annual commitment fee incurred on our revolving senior credit facility, which we terminated in September 2013 (the "Credit Agreement").

We expect our interest income to decrease in 2015 due to having lower cash balances primarily resulting from the repurchase of approximately \$30.0 million of our shares of common stock pursuant to the Offer completed in March 2014.

Other Income

On June 9, 2014, we received a signed letter of intent from a potential buyer for our East Windsor, Connecticut facility for approximately \$4.8 million. In July, we executed the formal purchase and sale agreement and in October the sale of the property was finalized. The sale of the property is part of our focus to reduce our footprint and operating costs. As such, an analysis of the asset group was performed and a loss on reclassification of \$1.2 million was recorded during 2014.

During the second quarter of 2014, we reversed \$4.1 million of an accrual related to a quality claim by one of our former customers in connection with a non-encapsulant product that we purchased from a vendor in 2005 and 2006 and resold. We stopped selling this product in 2006. We concluded that the settlement of this contingency is no longer probable and is remote.

During 2014, we received notification that we fulfilled the necessary Spanish grant requirements provided by the government and in turn reversed \$0.7 million of an accrual initially recorded in 2012.

In 2012, other income consists of the \$7.2 million payment received from the settlement of the JPS trade secret misappropriation lawsuit in 2012.

Foreign Currency Transaction Gain/(Loss)

Foreign currency transaction gain/(loss) is primarily the result of changes in the Euro, Hong Kong dollar, Chinese renminbi and Malaysian ringgit exchange rates. The majority of our foreign exchange exposure is due to U.S. denominated accounts receivable at our Spain facility, the settlement of intercompany transactions, U.S. cash balances held in foreign locations and non-resin costs incurred by our Malaysia subsidiary whose functional currency is the U.S. dollar which is the currency that it uses to invoice customers and procure resin.

Income Taxes

Income tax expense (benefit) is comprised of federal, state, local and foreign taxes based on income in multiple jurisdictions and changes in uncertain tax positions. In 2015, we will no longer be able to carryback operating losses for U.S. federal tax purposes. As such, we will no longer be able to record an income tax benefit in our consolidated statement of comprehensive loss. We expect to record full a valuation allowance against any taxable loss until, and if, we generate taxable income in the U.S.

Critical Accounting Policies

Our discussion and analysis of our consolidated financial position and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis, including those related to revenue recognition, accounts receivable, bad debts, valuation of inventory, long-lived tangible assets, product performance matters, income taxes and stock-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The accounting policies we believe to be most critical to understanding our financial results and condition and that require complex and subjective management judgments are discussed below.

Revenue Recognition and Accounts Receivable

We recognize revenue when evidence of an arrangement exists, delivery of the product has occurred and title and risk of loss have passed to the customer, the sales price is fixed or determinable, and collectability of the resulting receivable is reasonably assured.

Our business recognizes revenue from the manufacture and sale of its encapsulants, which is the only contractual deliverable, either at the time of shipping or at the time the product is received at the customer's port or dock, depending upon terms of the sale.

We do not offer general rights of return on our product. In isolated occasions, we have offered limited short-term performance warranties relating to our encapsulants not causing module power loss. This type of arrangement may increase in 2015. We perform long-term performance testing of our encapsulants during product development prior to launching new production introductions and in customer certification of our products prior to entering into mass production. We have operated our solar business since the 1970s and over 20 GW worth of solar modules utilizing our encapsulants have been installed in the field with no reported module power performance issues caused by our encapsulants and no related warranty claims to-date. Based on this fact pattern, we have not accrued any warranty liability associated for this potential liability as it is remote of occurrence. If we were to ever receive a warranty claim for such matter, we would assess the need for a warranty accrual at that time.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We review the collectability of our receivables on an ongoing basis and write-off accounts receivable after reasonable collection efforts have been made and the debt is deemed uncollectible.

Inventory Valuation

Our primary raw materials consist of resin, paper, packaging material and chemicals/additives.

Our finished goods inventories are typically made-to-order and have a shelf life of six to nine months from the date of manufacture. In rare occasions, we may build finished goods inventory safety stock in order to respond to short lead times in China. Cost is determined on a first-in, first-out basis and includes both the costs of acquisition and the costs of manufacturing. These costs include direct material, direct labor and fixed and variable indirect manufacturing costs, including depreciation.

We write inventory down to net realizable value when it is probable that our inventory carrying cost is not fully recoverable through sale or other disposition. Our write down considers overall market conditions, customer inventory levels, legal or contractual provisions and age of the finished goods inventories.

In 2014, we reserved \$1.0 million of inventory, a majority of which is related to excess raw material and expired finished goods inventory related to the launch of our prior product introduction.

In 2013, we reserved \$0.5 million of inventory, the majority of which was related to raw material inventory procured and not delivered due to the loss of a customer.

In 2012, we reserved \$0.7 million of inventory, a majority of which was a specific write-down associated with excess paper raw material inventory due to changes in customer specifications and being in the process of removing paper from our manufacturing process.

Long-Lived Assets and Goodwill

Our long-lived assets have consisted of goodwill, other intangible assets and property, plant and equipment.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and include expenditures for items that increase the useful lives of existing equipment. Maintenance and repairs are expensed as incurred. Property, plant and equipment accounts are relieved at cost, less related accumulated depreciation, when properties are disposed of or otherwise retired. Gains and losses from disposal of property, plant and equipment are included in net earnings.

On March 14, 2014, we agreed to sell, and the Administration Committee of Changkun Industrial Government (the "Buyer") agreed to purchase, our land use rights for a parcel of land located in Suzhou, China for \$1.9 million. We recorded a loss on disposal of fixed assets for the sale of this asset of \$0.4 million for the three months ended March 31, 2014. We received the proceeds on the sale during the second quarter of 2014.

On June 9, 2014, we received a signed letter of intent from a potential buyer for our East Windsor, Connecticut facility for approximately \$4.8 million. In July, we executed the formal purchase and sale agreement and in October the sale of the property was finalized. The sale of the property was part of our focus to reduce our footprint and operating costs. As such, an analysis of the asset group was performed and a loss on reclassification of \$1.2 million was recorded during 2014. We have relocated our corporate and research and development functions to our owned facility located in Enfield, Connecticut.

In 2013, we recorded \$0.2 million of impairment to our property, plant and equipment. The impairment was driven by our decision to cease the construction of our China manufacturing plant and to lease an existing building to conduct our manufacturing operations. As such, we wrote-off costs incurred to date relating to the construction of our own facility.

During 2012, due to continued and expected low production utilization levels, we recorded \$2.8 million of accelerated depreciation associated with shortened useful lives of certain machinery and equipment. In addition, we recorded a \$37.4 million impairment to our property, plant and equipment. See Impairment Testing below.

Intangible Assets

We accounted for business acquisitions using the purchase method of accounting and recorded definite-lived intangible assets separately from goodwill. Intangible assets were recorded at their estimated fair value based at the date of acquisition.

Our intangible assets were recorded as a result of the DLJ Acquisition and included our customer relationships, trademarks and proprietary technology. Our customer relationships consisted of the value associated with existing contractual arrangements as well as expected value to be derived from future contract renewals with our customers. We determined their value using the income approach. Their useful life was determined by consideration of a number of factors, including our previously longstanding customer base and historical attrition rates. Our trademarks represented the value of our STR® and Photocap® trademarks. We determined their value using the “relief-from-royalty” method. The useful life of trademarks was determined by consideration of a number of factors, including elapsed time and anticipated future cash flows. Our proprietary technology represented the value of our manufacturing processes. We determined its value using the “relief-from-royalty” method. The useful life of proprietary technology was determined by consideration of a number of factors, including elapsed time, prior innovations and potential future technological changes.

Determining the fair value and useful lives of our intangible assets required management’s judgment and involved the use of significant estimates and assumptions, including assumptions with respect to future cash flows, discount rates, asset lives and market royalty rates, among other items. While we believe our estimates were reasonable, different assumptions regarding items such as future cash flows and volatility in the markets we serve could have affected our evaluations.

In accordance with ASC 350-Intangibles-Goodwill and Other, we assessed the impairment of our definite-lived intangible assets whenever changes in events or circumstances indicated that the carrying value of such assets may not be recoverable. During each reporting period, we assessed if the following factors were present which would cause an impairment review: a significant or prolonged decrease in net sales that were generated under our trademarks; loss of a significant customer or reduction in our customers’ demand for our products driven by competition they encounter; a significant adverse change in the extent to or manner in which we used our trademarks or proprietary technology; and, such assets becoming obsolete due to new technology or manufacturing processes entering the markets or an adverse change in legal factors.

Due to continued pricing pressure, trade complaints escalating in the industry, increased competition from non-EVA encapsulant materials and our initial 2013 sales outlook, which included the loss of the our largest customer, we tested our long-lived assets again for impairment as of December 31, 2012 which resulted in a non-cash \$135.5 million impairment to write-off our intangible assets. See Impairment Testing below.

Goodwill

Goodwill represented the excess purchase price consideration of the estimated fair value assigned to the individual assets acquired and liabilities assumed in the DLJ Transaction.

In assessing if there was an impairment of goodwill, we first determined the fair value of our one reporting unit. Since the fair value of our reporting unit was less than our carrying value, we allocated the current fair value of the reporting unit to the assets and liabilities of the reporting unit to estimate

the reporting unit's implied goodwill. Since the implied goodwill was less than the carrying value of such goodwill, we recorded an impairment charge for the amount of such difference. We recorded a non-cash goodwill impairment charge of \$82.5 million in 2012. As of December 31, 2012, our goodwill was fully impaired. See Impairment Testing below.

Impairment Testing

In accordance with ASC 350-Intangibles-Goodwill and Other and ASC 360-Property, Plant and Equipment, we assessed the impairment of our long-lived assets including our definite-lived intangible assets, property, plant and equipment and goodwill whenever changes in events or circumstances indicated that the carrying value of such assets may not be recoverable. During each reporting period, we assessed if the following factors were present which would cause an impairment review: overall negative solar industry conditions; a significant or prolonged decrease in net sales that were generated under our trademarks; loss of a significant customer or a reduction in demand for customers' products; a significant adverse change in the extent to or manner in which we used our trademarks or proprietary technology; such assets becoming obsolete due to new technology or manufacturing processes entering the markets or an adverse change in legal factors; and the market capitalization of our common stock.

During the first quarter of 2012, the market capitalization of our Common Stock declined by approximately 50%. As a result of this decline that did not appear to be temporary, we determined that a triggering event occurred requiring us to test our long-lived assets and our goodwill for impairment as of March 31, 2012. Prior to performing our goodwill impairment test, we first assessed our long-lived assets for impairment as of March 31, 2012. We concluded that no impairment existed as the sum of the undiscounted expected future cash flows exceeded the carrying value of our asset group which is our reporting unit (\$333.4 million as of March 31, 2012) by \$200.5 million. The undiscounted cash flows were derived from the same financial forecast utilized in our goodwill impairment analysis. The key assumptions driving the undiscounted cash flows were the forecasted sales growth rate and EBITDA margin. For this impairment analysis, we used undiscounted cash flows reflecting a sales decline of 23% in 2012 and a sales increase of 20% and 22% in 2013 and 2014, respectively. Subsequent to 2014, a normalized 3% annual sales growth rate was used for the remaining useful life. We estimated our EBITDA margin to range from 12% to 16%. After evaluating our long-lived assets for impairment, we proceeded to test our goodwill for impairment. At March 31, 2012, we completed step one of the impairment test by valuing our reporting unit with the assistance of a valuation specialist and determined that our reporting unit's net book value exceeded our fair value. We then performed step two of the goodwill impairment assessment which involved calculating the implied fair value of goodwill by allocating the fair value of the reporting unit to all of our assets and liabilities other than goodwill and comparing the residual amount to the carrying amount of goodwill. We determined that the implied fair value of goodwill was lower than our carrying value and recorded a non-cash goodwill impairment charge of \$82.5 million. We estimated the fair value of our reporting unit under the income approach using a discounted cash flow method which incorporated our cash flow projections. We also considered our market capitalization, control premiums and other valuation assumptions in reconciling the calculated fair value to the market capitalization at the assessment date. Based on the other-than-temporary decline in our stock price and our net book value exceeding the market capitalization of our common stock during the first quarter of 2012, the market approach was given a higher weighting in determining fair value. We believe the cash flow projections and valuation assumptions used were reasonable and consistent with market participants. Many of the factors used in assessing the fair value were outside the control of management, and these assumptions and estimates could have changed in future periods as a result of both our specific factors, industry conditions and overall economic conditions.

At December 31, 2012, due to continued pricing pressure, trade complaints escalating in the industry, increased competition from non-EVA encapsulant materials and our initial 2013 sales outlook,

which included the loss of our former largest customer, we determined that a trigger event occurred to test our long-lived assets for recoverability. In conjunction with a valuation specialist, we determined that the sum of the undiscounted expected future cash flows did not exceed the carrying value of our asset group which is our reporting unit. The key assumptions driving the undiscounted cash flows were the forecasted sales growth rate and EBITDA margin.

Since the asset group's carrying value was not recoverable, we, in conjunction with a valuation specialist, fair valued the asset group incorporating market participant assumptions. We estimated the fair value of our asset group under the income approach using a discounted cash flow model which incorporated our cash flow projections. In performing the fair value analysis, we used discounted cash flows reflecting a sales decline of 43% in 2013 and a sales increase of 35% and 30% in 2014 and 2015, respectively. Subsequent to 2015, a normalized 3% annual sales growth rate was used for the remaining useful life of our existing long-lived assets. We estimated our EBITDA margin to range from (22)% to 10%. We also considered our market capitalization, control premiums and other valuation assumptions in reconciling the calculated fair value to the market capitalization at the assessment date. Based on the assessment, we calculated an impairment charge which was allocated to each of the long-lived assets on a pro-rata basis using the relative carrying values of those assets as of December 31, 2012. However, we did not reduce the carrying value of such assets below their fair value where such value could be determined without undue cost and effort. Therefore, we recorded a non-cash impairment charge of \$135.5 million to our intangible assets and \$37.4 million to our property, plant and equipment as of December 31, 2012. We re-evaluated the depreciable lives of such long-lived assets and determined a revision to those lives was not warranted.

In the fourth quarter of 2013, we recorded an impairment to our property, plant and equipment of \$0.2 million. The impairment was driven by our decision to cease the construction of our China manufacturing plant and to lease an existing building to conduct our manufacturing operations. As such, we wrote-off costs incurred to date relating to the construction of our own facility.

At December 31, 2013, there were no indicators that significantly changed from the December 31, 2012 impairment test and a detailed impairment analysis was not performed. However, we did perform an analysis using appraisals and other data in order to assess the recoverability of our property, plant and equipment as of December 31, 2013. As a result of this analysis, we determined our long-lived assets were recoverable and our depreciable lives were appropriate as of December 31, 2013.

At December 31, 2014, we recorded valuation allowances against our deferred tax assets. As such, we determined this to be an indicator to test our long-lived assets for impairment. The valuation allowances were recorded since we have three years of taxable loss and we determined that our history of actual net losses is negative evidence that should be given more weight than future projections. As such, we determined the recording of valuation allowances to be an indicator to test our long-lived assets, which consists solely of property, plant and equipment, for impairment. We concluded that no impairment existed as the sum of the undiscounted expected future cash flows exceeded the carrying value of our long-lived asset group which is our reporting unit (\$57.7 million as of December 31, 2014) by \$54.9 million. The undiscounted cash flows were derived from a five year financial forecast. The key assumptions driving the undiscounted cash flows were the forecasted sales growth rate and EBITDA margin. The sales growth rates used for this impairment analysis were 56%, 60%, 47%, 19% and 16%, respectively. The sales growth rates imply an increase of market share from 5% to 15% with such growth being anticipated from recent new customer wins and execution of the Sales Service agreement with Zhenfa. We estimated our EBITDA margin to range from (5%) to 9%. In addition to assessing the undiscounted cash flows, we also assessed the specific recoverability of our property, plant and equipment via obtaining updated real estate appraisals and using other fair market value indicators for our other fixed assets, mainly production equipment. Based upon this analysis, we believe our property, plant and equipment's carrying value is recoverable and depreciable lives are appropriate as of December 31, 2014. If we experience a significant reduction in future sales volume, further ASP

reductions, lower profitability, ceases operations at any of its facilities, or negative changes in Malaysia, U.S. or Spain real estate markets, our property, plant and equipment may be subject to future impairment or accelerated depreciation.

Product Performance Accrual

We provide a short-term warranty that we have manufactured our products to our specifications. On limited occasions, we incur costs to service our products in connection with specific product performance matters that do not meet our specifications. Anticipated future costs are recorded as part of cost of sales and accrued liabilities for specific product performance matters when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated.

In isolated occasions, we have offered limited short-term performance warranties relating to our encapsulants not causing module power loss. This type of arrangement may increase in 2015. We perform long-term performance testing of our encapsulants during product development prior to launching new production introductions and in customer certification of our products prior to entering into mass production. We have operated our solar business since the 1970s and over 20 GW worth of solar modules utilizing our encapsulants have been installed in the field with no reported module power performance issues caused by our encapsulants and no related warranty claims to-date. Based on this fact pattern, we have not accrued any warranty liability associated for this potential liability as it is remote of occurrence. If we were to ever receive a warranty claim for such matter, we would assess the need for a warranty accrual at that time.

Income Taxes

We operate in multiple taxing jurisdictions and are subject to the jurisdiction of a number of U.S. and non-U.S. tax authorities and to tax agreements and treaties among those authorities. Operations in these jurisdictions are taxed on various bases, including income before taxes as calculated in accordance with jurisdictional regulations.

We account for income taxes using the asset and liability method in accordance with ASC 740-Income Taxes. Under this method, we recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss and tax credit carryforwards. We estimate our deferred tax assets and liabilities using the enacted tax laws expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and will recognize the effect of a change in tax laws on deferred tax assets and liabilities in the results of our operations during the period that includes the enactment date.

In assessing the need for a valuation allowance, we consider all positive and negative evidence including: estimates of future taxable income, considering the feasibility of ongoing tax planning strategies, the reliability of tax loss carryforwards and the future reversal of existing temporary differences. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event we were to determine that we would not be able to realize all or a portion of our tax assets in the future, the unrealizable amount would be charged to earnings in the period in which that determination is made. By contrast, if we were to determine that we would be able to realize deferred tax assets in the future in excess of the net carrying amounts, we would decrease the recorded valuation allowance through a favorable adjustment to earnings in the period in which that determination is made. As of December 31, 2014, we have recorded \$2.7 million of valuation allowances relating to our China and Hong Kong subsidiaries, which have generated operating losses since their inception. If we are able to generate future profits at such subsidiaries, we will reverse the valuation allowance. In 2014, we have recorded a valuation allowance against a deferred tax asset of \$3.2 million for a loss carryforward benefit at our Spain subsidiary. We

recorded a valuation allowance for this carryforward as we believe it is more likely than not that the benefit of the loss carryforward will not be fully realized due to lack of taxable income that will be generated by our Spain subsidiary. In the United States, we have amended our 2011 federal tax return to apply current losses as loss carrybacks. We have carryback losses generated in the United States in 2014. After 2014, any taxable losses will have to be carryforward. As such, we also recorded a valuation allowance of \$1.5 million in the U.S. as of December 31, 2014. We expect to record a valuation allowance for future taxable losses generated in the United States until we generate taxable income.

ASC 740 also addresses the accounting for uncertainty in income taxes recognized in a company's financial statements and how companies should recognize, measure, present and disclose uncertain tax positions that have been or are expected to be taken. Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more likely than not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the appropriate taxing authority has completed its examination whether or not the statute of limitations remains open or has expired. Interest and penalties related to uncertain tax positions are recognized as part of our provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized.

We are subject to the examinations of our income tax returns by various domestic and international taxing authorities. We are currently under audit for multiple state tax jurisdictions for various years. The final outcome of any examinations or legal proceedings as well as the outcome of competent authority proceedings, changes and interpretation in regulatory tax laws, or expiration of statutes of limitation could impact our financial statements. Accordingly, we have accruals recorded for which it is reasonably possible that the amount of the unrecognized tax benefit could increase or decrease. Based on the uncertainties associated with the status of examinations, including the protocols of finalizing audits by the relevant tax authorities which could include formal legal proceedings, changes to our estimates may impact the future results of our operations.

We currently have a tax holiday in Malaysia through 2019. As of December 31, 2014, we have not asserted that we will permanently reinvest our foreign subsidiary's earnings. As such, U.S. federal and state income taxes will have to be provided on any future taxable income generated by our foreign subsidiaries, if any.

Stock-Based Compensation

ASC 718-Compensation-Stock Compensation, addresses accounting for share-based awards, including stock options, with compensation expense measured using fair value and recorded over the requisite service or performance period of the award.

Starting in 2013, we determined the fair value of the stock options issued using the Black-Scholes option pricing model. Prior to 2013, we used an independent outside appraisal firm. Our assumptions about stock-price volatility were based on the historical implied volatilities of our common stock and those of other publicly traded options to buy stock with contractual terms closest to the expected life of options granted to our employees. The expected term represents the estimated time until employee exercise is estimated to occur taking into account vesting schedules and using the Hull-White model. The risk-free interest rate for periods within the contractual life of the award is based on the U.S.

Treasury 10 year zero-coupon strip yield in effect at the time of grant. The expected dividend yield was based on the assumption that no dividends are expected to be distributed in the near future.

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Expected volatility	55.1%	58.9%	75.3%
Risk-free interest rates	2.7%	2.5%	0.6%
Expected term (in years)	6.7	7.4	4.4
Dividend yield	—	—	—
Weighted-average estimated fair value of options granted during the period	\$0.90	\$1.40	\$1.79

Stock Option Cancellations

During 2014, 1,365,916 stock options were cancelled due to the termination of employment of certain employees at the end of 2013. Since no tax windfall pool existed in additional paid-in-capital, the reduction in the deferred tax asset of \$1.3 million was charged to income tax expense as a discrete item 2014.

Due to the closing of the transaction with Zhenfa, which constituted a change of control transaction under our equity incentive plan, we elected, as permitted under such plan, to cancel all outstanding options effective as of the closing of that transaction. We cancelled the options due to material changes in our business and capital structure which would significantly impact our previous issued options. These changes included the share issuance which represented a change in control and doubled our share count, payment of the Special Dividend and the reverse stock split. All of these items represented material changes to our capital structure and market capitalization and could materially impact the trading price of our common stock. Due to the uncertainty, we cancelled the options prior to the Transaction and would reissue new options at a later date when our capital structure was established, including the amount of the reverse stock split, and our stock price traded for a period of time subsequent to all of these transactions.

In total, options to purchase 3,405,389 shares were cancelled of which options to purchase 2,100,389 shares had been fully vested. We recorded a non-cash stock compensation expense of \$1.1 million associated with the cancellation.

Deferred Compensation

We had a deferred compensation arrangement with certain members of management, including Robert S. Yorgensen, that stated upon the earlier of December 31, 2015, our sale (which included a change of control transaction) or termination of employment for any reason, the members were entitled to bonus payments based upon a formula set forth in their respective employment agreements. The payments were tied to distribution amounts they would have received with respect to their former ownership in our predecessor company if the assets were sold at fair market value compared to the value of our stock price. The amount of the potential bonus payment was capped at \$1.2 million. In accordance with ASC 718-30, the obligation was remeasured quarterly at fair value. We determined fair value using observable current market information as of the reporting date. The most significant input to determine fair value was determined to be our common stock price which is a Level 2 input. Based upon the difference of the floor in the agreements and our common stock price at November 15, 2013 for one terminated employee and December 31, 2014 for Mr. Yorgensen, we accrued \$0.2 million as a liability. In the first quarter of 2014, we paid \$0.6 million in deferred compensation. The remaining \$0.2 million was paid in 2015 to Mr. Yorgensen as a result of the transaction with Zhenfa.

Consolidated Results of Operations

The following tables set forth our consolidated results of continuing operations in dollars and as a percentage of net sales, for the fiscal years ended December 31, 2014, 2013 and 2012:

	<u>Year Ended</u> <u>December 31, 2014</u>	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
	(dollars in thousands)		
Statement of Continuing Operations Data:			
Net sales	\$ 39,288	\$ 31,860	\$ 95,345
Cost of sales	<u>44,522</u>	<u>34,085</u>	<u>97,193</u>
Gross loss	(5,234)	(2,225)	(1,848)
Selling, general and administrative expenses	12,832	18,322	21,345
Research and development expense	1,160	2,670	4,371
Provision for bad debt expense	483	1,824	486
Goodwill impairment	—	—	82,524
Intangible asset impairment	—	—	135,480
Asset impairment	<u>—</u>	<u>194</u>	<u>37,431</u>
Operating loss	(19,709)	(25,235)	(283,485)
Interest income (expense), net	27	(30)	(196)
Amortization of deferred financing costs	—	(189)	(1,079)
Other income	3,634	—	7,202
(Loss) gain on disposal of fixed assets	(451)	185	—
Foreign currency transaction gain (loss)	<u>298</u>	<u>(366)</u>	<u>(281)</u>
Loss from continuing operations before income tax expense (benefit)	(16,201)	(25,635)	(277,839)
Income tax expense (benefit) from continuing operations	<u>6,532</u>	<u>(7,349)</u>	<u>(66,264)</u>
Net loss from continuing operations	<u>\$ (22,733)</u>	<u>\$ (18,286)</u>	<u>\$ (211,575)</u>

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Statement of Continuing Operations Data:			
Net sales	100.0%	100.0%	100.0%
Cost of sales	113.3%	107.0%	101.9%
Gross loss	(13.3)%	(7.0)%	(1.9)%
Selling, general and administrative expenses	32.7%	57.5%	22.4%
Research and development expense	3.0%	8.4%	4.6%
Provision for bad debt expense	1.2%	5.7%	0.5%
Goodwill impairment	—%	—%	86.6%
Intangible asset impairment	—%	—%	142.1%
Asset impairment	—%	0.6%	39.3%
Operating loss	(50.2)%	(79.2)%	(297.3)%
Interest income (expense), net	0.1%	(0.1)%	(0.2)%
Amortization of deferred financing costs	—%	(0.6)%	(1.1)%
Other income	9.2%	—%	7.6%
(Loss) gain on disposal of fixed assets	(1.1)%	0.6%	—%
Foreign currency transaction gain (loss)	0.8%	(1.1)%	(0.3)%
Loss from continuing operations before income tax expense (benefit)	(41.2)%	(80.5)%	(291.4)%
Income tax expense (benefit) from continuing operations	16.7%	(23.1)%	(69.5)%
Net loss from continuing operations	(57.9)%	(57.4)%	(221.9)%

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

The following tables set forth our consolidated results of continuing operations in dollars and as a percentage of net sales for the fiscal years ended December 31, 2014 and 2013:

Net Sales

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Net sales	\$39,288	100.0%	\$31,860	100.0%	\$7,428	23.3%

During the past few years, our net sales have decreased significantly. In addition to the ASP pressure discussed below, our unit volumes have declined since 2010 due to lost market share. Our market share decline was the result of the loss of First Solar as a customer, financial distress of certain of our key customers, many of our customers losing market share to certain Chinese module manufacturers who are currently not our customers and continuing intensified competition in the encapsulant market, including pressure on pricing and terms and competitive technologies entering the marketplace.

In 2014, we had our first annual increase in net sales since 2010. The increase in net sales for the year ended December 31, 2014 compared to the corresponding period in 2013 was mainly due to a 57% increase in sales volume offset by an approximate 22% decrease in our ASP.

In 2013, we embarked on introducing our next-generation encapsulant formulation with a focus on growing our market share with Chinese module manufacturers. We believe our next-generation

encapsulant formulation possesses enhanced potential induced degradation properties and has been specifically engineered for the manufacturing processes typically used in China. We experienced a delay in our product introduction in the middle of 2013 as we were notified by certain target customers that a small percentage of our product was not performing properly in their manufacturing process. Based upon this feedback, we worked to improve the manufacturing process window of our formula with the customer's lamination cycle. Our improved formulation needed to be requalified by many of our Chinese prospects. Internal customer qualification testing is a very rigorous process that can take anywhere from a few months to a few years. Once internal qualification is obtained with a customer, our encapsulant must also be qualified by a third-party certification body, which typically requires approximately three additional months. The qualification process must occur with each prospective customer. The internal qualification process and timing are managed and customized by each module manufacturer.

In the latter part of 2013, certain customers provided positive feedback on the modifications made to our next-generation EVA encapsulants, and we started to receive repeat orders. The 57% volume increase in 2014 compared to the corresponding 2013 period was driven primarily by share wins with Chinese module manufacturers and their other OEM partners with our next-generation encapsulant. We were informed in January 2013, that our former largest customer, First Solar, would cease sourcing encapsulant from us starting the first half of 2013. First Solar accounted for \$5.7 million, or 18% of our net sales for the year ended December 31, 2013. When removing the impact of First Solar in 2013, net sales increased by 50% during 2014 driven by an approximate 85% increase in sales volume.

Pricing of our encapsulants is impacted by the competition faced by our customers, and the quality and performance of our encapsulant formulations, including their impact on improving our customers' manufacturing yields, their history in the field, our ability to meet our customers' delivery requirements, overall supply and demand levels in the industry and our customer service and technical support. Historically, we typically priced our encapsulants at a premium to our competition based on product attributes that among other benefits provide a high value proposition to our customers in a period of tight capacity. During recent years, the excess capacity that existed at most module manufacturers has reduced the value proposition of the throughput and other production efficiencies that our encapsulants provide and has caused encapsulant cost to become a more important factor in the procurement process for many customers. In addition, low-cost competition from China and increased entrants in the encapsulant market have intensified competition. Based on these factors, we experienced an ASP decline of approximately 22% from the prior year.

For several years, we have been working to increase our market share in China through investments in people, research and development and facilities. Firstly, we increased our Chinese sales and technical service teams to develop sound customer relationships at the tactical level and provide customer service in the local language, custom and time zone. Secondly, we invested in research and development to broaden the process window of our encapsulant products for use in Chinese module production processes, which differ from those found in the western markets we have historically supplied. Broadening our process window, while also maintaining and optimizing our high-quality performance attributes of long-term stability, low shrinkage, high light transmission and PID resistance, took significant effort and time. As a result of these efforts, we have now passed internal and external qualification testing with many of the leading Chinese module manufacturers. Thirdly, we invested in local manufacturing in China to shorten the order fulfillment cycle and to comply with customer demand for domestic production. As discussed above, our subsidiary, STR Solar (Hong Kong), Limited, entered into a Manufacturing Agreement with FeiYu, under which FeiYu will manufacture certain of our encapsulant products to our specification. FeiYu currently has approximately 1.0 GW of annual active manufacturing capacity. In addition, we have built out our own leased 57,500 square foot manufacturing facility located in Shajiang, China. This facility became operational in the fourth quarter of 2014 with 1.2 GW of initial production capacity.

In addition to the above items, we entered into the strategic transaction with Zhenfa to help us increase our net sales in China. The Zhenfa Group is owned and headquartered in China and represents a significant customer of many top-tier Chinese module manufacturers that we have been trying to sell to. We believe that the Transaction should enhance our presence in China and could significantly improve our operating results if the Zhenfa Group were to be successful in assisting us in marketing and selling our products to China-based solar module manufacturers.

Cost of Sales

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Cost of sales	\$44,522	113.3%	\$34,085	107.0%	\$10,437	30.6%

The increase in our cost of sales for the year ended December 31, 2014 compared to the corresponding period in 2013 reflects \$10.3 million of increased material costs primarily associated with the 57% increase in sales volume and an approximate 4% increase in resin price. We also experienced lower yield and inefficiencies introducing our new product, ramping production at FeiYu as well as winding down and recommencing manufacturing at our Malaysia facility. These amounts more than offset material savings from a 23% increase in our paperless products sales volume. Direct labor decreased by \$0.9 million as \$1.8 million of lower restructuring charges were mostly offset by variable labor costs associated with the sales volume increase and \$1.1 million in tolling costs related to the Manufacturing Agreement with FeiYu. Overhead costs decreased by less than \$0.1 million due to the benefit of prior cost reductions, including the indirect headcount reduction actions made during 2013 as well as ceasing production at our East Windsor, Connecticut facility which were offset by incremental staffing and preoperational costs associated with getting our China plant to be operational in the fourth quarter of 2014.

Gross Loss

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Gross loss	\$(5,234)	(13.3)%	\$(2,225)	(7.0)%	\$(3,009)	(135.2)%

Gross loss as a percentage of net sales increased for the year ended December 31, 2014 compared to the corresponding period in 2013 mainly as a result of a 22% ASP decline, lower yield and lower absorption of fixed costs at our Malaysia and China facilities that more than offset \$1.8 million of lower restructuring charges, higher sales volume, a 23% percent increase in paperless product sales mix and benefits from prior cost reduction actions.

Our gross loss in 2014 is primarily due to lower yield associated with product introductions and frequent change overs due to smaller and more frequent production runs, \$0.6 million of product performance matters, \$0.9 million of inventory charges as well as poor utilization at all of our facilities due to low volume. We expect to return to positive gross margin by the end of 2015. We believe this will occur due to increased mix of our paperless production mix, improvement in yield based upon process improvements implemented in the fourth quarter of 2014 and early part of 2015, lower material

prices, the expected avoidance of inventory write-offs and better absorption associated with expected higher sales volume.

Selling, General and Administrative Expenses (“SG&A”)

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
SG&A	\$12,832	32.7%	\$18,322	57.5%	\$(5,490)	(30.0)%

SG&A decreased \$5.5 million for the year ended December 31, 2014 compared to 2013. This decrease was primarily driven by a \$2.0 million decrease in labor and benefits due to headcount reductions taken during 2013 and a \$3.1 million decrease in restructuring charges. In 2014, we reversed prior restructuring accruals established in 2013 for the prior anticipated closure of our Malaysia plant that we elected to keep operational of \$0.4 million. We also reversed \$0.2 million of restructuring charges initially recorded in 2012 due to receiving notification that we have fulfilled the necessary Spanish grant requirements. In addition, we had a \$1.9 million decrease in professional fees. These positive impacts were partially offset by \$0.4 million of bonuses related to the transaction with Zhenfa and \$0.5 million of higher non-cash stock-based compensation primarily related to the cancellation of all previously granted options due to the approval of the transaction with Zhenfa.

Research and Development Expense (“R&D”)

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
R&D	\$1,160	3.0%	\$2,670	8.4%	\$(1,510)	(56.6)%

Research and development expense decreased \$1.5 million for the year ended December 31, 2014 compared to the prior year. The decrease was driven by cost reduction measures. During the third quarter of 2013, we significantly reduced our research and development headcount to scale down general development efforts and focus our efforts to optimize our next-generation EVA encapsulant formulation. In addition, we eliminated the position of Chief Technology Officer effective November 15, 2013. Our President and Chief Executive Officer is directly overseeing the research and development function.

Provision for Bad Debt Expense

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Bad debt expense	\$483	1.2%	\$1,824	5.7%	\$(1,341)	(73.5)%

The provision for bad debt expense recorded during the year ended December 31, 2014 primarily related to aging of certain Chinese customers. The provision for bad debt expense recorded in 2013 primarily related to two of our customers declaring bankruptcy, the majority of which related to a significant European customer who has since reorganized and continues to produce solar modules.

Asset Impairment

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Asset impairment	\$—	—%	\$194	0.6%	\$(194)	(100.0)%

In 2013, we recorded \$0.2 million of impairment to our property, plant and equipment. The impairment was driven by our decision to cease the construction of our China manufacturing plant and to lease an existing building to conduct our manufacturing operations. As such, we wrote-off costs incurred to date relating to the construction of our own facility.

Interest Income (Expense), net

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Interest income (expense), net	\$27	0.1%	\$(30)	(0.1)%	\$57	190.0%

The increase in interest income, net was primarily the result of the decrease in the commitment fee expense as a result of terminating our prior revolving senior credit facility during the third quarter of 2013. This expense savings more than offset lower interest income earned due to lower cash balances during 2014 compared to the corresponding 2013 period.

Amortization of Deferred Financing Costs

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Amortization of deferred financing costs	\$—	—%	\$189	0.6%	\$(189)	(100.0)%

Amortization of deferred financing costs decreased as a result of terminating our prior revolving senior credit facility during the third quarter of 2013. At that time, we wrote-off the remaining balance of deferred financing costs.

Other Income

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Other income	\$3,634	9.2%	\$—	—%	\$(3,634)	(100.0)%

On June 9, 2014, we received a signed letter of intent from a potential buyer for our East Windsor, Connecticut facility for approximately \$4.8 million. In July, we executed the formal purchase and sale agreement and in October the sale of the property was finalized. The sale of the property was part of our focus to reduce our footprint and operating costs. As such, an analysis of the asset group was performed and a loss on reclassification of \$1.2 million was recorded during 2014. We have relocated our corporate and research and development functions to our owned facility located in Enfield, Connecticut.

During the second quarter of 2014, we reversed \$4.1 million of an accrual related to a quality claim by one of our customers in connection with a non-encapsulant product that we purchased from a vendor in 2005 and 2006 and resold. We stopped selling this product in 2006. We concluded that the settlement of this contingency is no longer probable and is remote.

During 2014, we received notification that we fulfilled the necessary Spanish grant requirements provided by the government and in turn reversed \$0.7 million of an accrual initially recorded in 2012.

(Loss) Gain on Disposal of Fixed Assets

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
(Loss) gain on disposal of fixed assets	\$ (451)	(1.1)%	\$ 185	0.6%	\$ (636)	(343.8)%

In 2014, we sold our land use rights for a parcel of land located in Suzhou, China to the Administration Committee of Changkun Industrial Government for \$1.9 million. We recorded a loss on disposal of fixed assets for the sale of this asset of \$0.4 million.

Foreign Currency Transaction Gain (Loss)

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Foreign currency transaction gain (loss)	\$ 298	0.8%	\$ (366)	(1.1)%	\$ 664	181.4%

The foreign currency transaction impact was a gain of \$0.3 million for the year ended December 31, 2014 compared to a loss of \$0.4 million in the corresponding 2013 period. The change was primarily the result of volatility in the Euro exchange rate which decreased by 12% for the year ended December 31, 2014 compared to the corresponding 2013 period.

Income Tax Expense (Benefit) from Continuing Operations

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Income tax expense (benefit) from continuing operations	\$ 6,532	16.7%	\$ (7,349)	(23.1)%	\$ 13,881	188.9%

Our effective income tax rate from continuing operations for the year ended December 31, 2014 was (40.3)% compared to the U.S. federal statutory tax rate of 35.0%. Our effective tax rate from continuing operations was 28.7% for the year ended December 31, 2013.

In 2014, our operations generated a loss from continuing operations that was taxed at the U.S. federal statutory rate of 35.0%, prior to the impact of any deductions or non-deductible expenses. The expected 2014 income tax benefit decreased as the result of \$4.8 million of non-qualified stock option cancellations and the recognition of a full valuation allowance of \$3.1 million against the remaining net deferred tax assets. The December 31, 2014 effective tax rate from continuing operations was further decreased for Malaysia pre-tax losses for which there is no tax benefit due to the tax holiday as well as other foreign losses for which no tax benefit has been recorded.

In 2013, our operations generated a pre-tax loss in the United States as the solar industry continued to shift and expand in Asia. As such, we received an income tax benefit that reduced our expected loss at the U.S. federal statutory rate of 35%, prior to the impact of any deductions or non-deductible expenses. The December 31, 2013 effective tax rate from continuing operations was further decreased for Malaysia pre-tax losses for which there was no tax benefit due to the tax holiday as well as other foreign losses for which no tax benefit was recorded.

Net Loss from Continuing Operations

	Years Ended December 31,					
	2014		2013		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Net loss from continuing operations	\$(22,733)	(57.9)%	\$(18,286)	(57.4)%	\$4,447	24.3%

Net loss from continuing operations for the year ended December 31, 2014 increased compared to the corresponding 2013 period driven by higher tax expense of \$13.9 million, the \$1.2 million loss on reclassification on assets held for sale associated with the sale of our Connecticut facility, inefficiencies ramping production at FeiYu, lower yield, lower profitability at our Malaysia facility due to inefficiencies associated with winding down and then recommencing operations once we elected to keep the facility open and preproduction costs at our China facility that became operational in the fourth quarter of 2014. These negative impacts were partially offset by the \$4.1 million non-cash product performance accrual reversal, higher net sales, reduced bad debt expense, \$4.9 million of lower restructuring expense and continued cost reduction efforts.

Cost Reduction Actions

On January 22, 2013, the Board of Directors approved a cost reduction action to cease manufacturing at our East Windsor, Connecticut facility after being notified that our largest customer selected an alternative supplier. In addition, we executed further headcount reductions during the third and fourth quarters of 2013 to better align our cost structure with current sales. In addition, on October 15, 2013, in connection with ongoing cost reduction measures, we eliminated the positions of Chief Operating Officer, Vice President of Human Resources, Chief Technology Officer and Vice President of Finance, effective November 15, 2013. In total, we executed headcount reductions of approximately 180 employees on a global basis for the year ended December 31, 2013. In conjunction with these headcount reductions, we recognized severance and related benefits of \$1.7 million in cost of sales and \$2.6 million in selling, general and administrative expense.

In light of the continued shift in module manufacturing to mainland China, and the requirement within this growing market for just-in-time delivery, we announced plans in 2013 to cease production at our Johor, Malaysia facility in 2014. In conjunction with the anticipated closure, we recognized severance and other benefits of \$0.4 million in cost of sales and \$0.4 million in selling, general and administrative expenses in 2013. In 2014, we reassessed the strategic benefit of this facility. Due to continued solar trade disputes between China and the United States and Europe, including the levy of tariffs and anti-dumping duties, solar module production is expected to increase in Asia outside of China. As such, we believe our Malaysia facility is strategically located in this region, and it will remain open indefinitely. As such, we reversed restructuring accruals recorded in 2013 during 2014 resulting in a positive benefit to cost of sales of \$0.4 million and selling, general and administrative expense of \$0.4 million.

During 2014, we received notification that we fulfilled the necessary Spanish grant requirements provided by the government and in turn reversed \$0.2 million of an accrual initially recorded in 2012.

The activity during the year ended December 31, 2014 related to cash settlements of previous accrued amounts, minor adjustments for cost reduction actions initiated in 2013 and the non-cash reversal of prior accruals relating to the Malaysia facility that will now remain open.

A rollforward of the restructuring accrual activity was as follows:

	<u>December 31, 2014</u>
Balance at December 31, 2013	\$ 1.9
Additions	0.4
Reversals	(1.0)
Reductions	<u>(1.2)</u>
Balance at December 31, 2014	<u>\$ 0.1</u>

The restructuring accrual as of December 31, 2014 consists of less than \$0.1 million for severance and benefits and \$0 million of other exit costs for the year ended December 31, 2014. We will continue to adjust our anticipated labor resources and production capabilities to match forecasted demand for our encapsulants.

Net Loss from Discontinued Operations

	<u>Years Ended December 31,</u>					
	<u>2014</u>		<u>2013</u>		<u>Change</u>	
	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>%</u>
Net loss from discontinued operations	\$884	2.3%	\$—	—%	\$884	100.0%

Net loss from discontinued operations for the year ended December 31, 2014 relates to an accrual for potential adjustments relating to a state audit on tax filings of our former QA business, which was sold in 2011. We recorded an income tax expense to discontinued operations of \$0.9 million.

Net Loss

	<u>Years Ended December 31,</u>					
	<u>2014</u>		<u>2013</u>		<u>Change</u>	
	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>%</u>
Net loss	\$(23,617)	(60.1)%	\$(18,286)	(57.4)%	\$5,331	29.2%

Net loss from continuing operations for the year ended December 31, 2014 increased compared to the corresponding 2013 period driven by higher tax expense of \$13.9 million, the \$1.2 million loss on reclassification on assets held for sale associated with the sale of our Connecticut facility, inefficiencies ramping production at FeiYu, lower yield, lower profitability at our Malaysia facility due to inefficiencies associated with winding down and then recommencing operations once we elected to keep the facility open, preproduction costs at our China facility that became operational during the fourth quarter of 2014 and \$0.9 million of discontinued operations income tax expense. These negative impacts were partially offset by the \$4.1 million non-cash product performance accrual reversal, higher net sales, reduced bad debt expense, \$4.9 million of lower restructuring expense and continued cost reduction efforts.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

The following tables set forth our consolidated results of continuing operations in dollars and as a percentage of net sales for the fiscal years ended December 31, 2013 and 2012:

Net Sales

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Net sales	\$31,860	100.0%	\$95,345	100.0%	\$(63,485)	(66.6)%

The decrease in net sales for the year ended December 31, 2013 compared to the corresponding period in 2012 was mainly due to a 58% decrease in sales volume and an approximate 20% decrease in our ASP.

Pricing of our encapsulants was impacted by the competition faced by our customers, and the quality and performance of our encapsulant formulations, including their impact on improving our customers' manufacturing yields, their history in the field, our ability to meet our customers' delivery requirements, overall supply and demand levels in the industry and our customer service and technical support. Historically, we typically priced our encapsulants at a premium to our competition based on product attributes that among other benefits provided a high value proposition to our customers in a period of tight capacity. During recent years, the excess capacity that existed at most module manufacturers reduced the value proposition of the throughput and other production efficiencies that our encapsulants provide and caused encapsulant cost to become a more important factor in the procurement process for many customers. In addition, low-cost competition from China and increased entrants in the encapsulant market intensified competition. Based on these factors, we experienced an ASP decline of approximately 20% from the prior year.

During the past few years, our net sales have decreased significantly. In addition to the ASP pressure discussed above, our unit volumes declined due to lost market share. Our market share loss was the result of the loss of First Solar as a customer, financial distress of certain of our key customers, many of our customers losing market share to certain Chinese module manufacturers who were not our customers and continuing intensified competition in the encapsulant market, including pressure on pricing and terms and competitive technologies entering the marketplace.

In the second quarter of 2013, we shipped initial commercial shipments of our next-generation encapsulant product to three new Chinese customers to begin production scale-up but did not recognize sales based upon title transfer terms. Module manufacturers perform production scale-up testing to ensure new products demonstrate performance in mass production as achieved in product testing. In August, we were notified by certain of these customers that a small percentage of our product was not performing properly in its manufacturing process. Based upon this feedback, we actively worked to improve the manufacturing process window of our formula with the customer's lamination cycle. As such, we were delayed in being able to generate net sales from these customers as previously anticipated. In the fourth quarter of 2013, certain customers provided positive feedback on the modifications made to our next-generation EVA encapsulants and we started to receive repeat orders.

Cost of Sales

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Cost of sales	\$34,085	107.0%	\$97,193	101.9%	\$(63,108)	(64.9)%

The decrease in our cost of sales for the year ended December 31, 2013 compared to the corresponding period in 2012 reflected an approximate 58% decrease in sales volume. Raw material costs decreased by \$35.4 million due to lower production volume and utilization of lower priced raw materials. Direct labor costs decreased by \$4.4 million due to lower volume and the positive effect of prior cost reduction measures, that more than offset \$0.8 million of increased severance costs. Overhead costs decreased by \$23.4 million mostly due to a reduction of \$8.4 million of non-cash intangible asset amortization and \$8.4 million of lower depreciation expense due to the long-lived asset impairment recorded at December 31, 2012. In addition, we benefited from the savings associated with prior cost reduction actions including the indirect headcount reduction actions made during 2013 and 2012, including ceasing production at our East Windsor, Connecticut facility.

Gross Loss

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Gross loss	\$(2,225)	(7.0)%	\$(1,848)	(1.9)%	\$(377)	(20.4)%

Gross loss as a percentage of net sales increased for year ended December 31, 2013 mainly as a result of lower ASP, \$0.8 million of higher restructuring charges and the negative impact of lower sales volume that reduced capacity utilization and fixed cost absorption. Production decreased by 58% during the year ended December 31, 2013 compared to the corresponding period 2012 period. These negative impacts more than offset the benefit from previous cost reduction actions, \$8.4 million of lower depreciation expense and \$8.4 million of lower non-cash intangible asset amortization as discussed above.

SG&A

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
SG&A	\$18,322	57.5%	\$21,345	22.4%	\$(3,023)	(14.2)%

SG&A decreased \$3.0 million for the year ended December 31, 2013 compared to the corresponding period in 2012. The decrease was primarily driven by a \$2.4 million decrease in labor and benefits due to headcount reductions taken during 2013 and 2012. Non-cash stock-based compensation decreased \$1.6 million due to the vesting of equity awards granted at the time of our initial public offering. In addition, we had lower depreciation expense of \$0.6 million and a \$0.9 million decrease due to cost reductions obtained in travel and other SG&A items that partially offset \$2.4 million of increased restructuring charges. Included in the \$18.3 million is \$1.4 million of professional fees associated with advisors engaged to assess strategic alternatives for us.

Research and Development Expense (“R&D”)

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
R&D	\$2,670	8.4%	\$4,371	4.6%	\$(1,701)	(38.9)%

Research and development expenses decreased \$1.7 million compared to the corresponding period in 2012. These decreases were driven by cost reduction measures and lower development costs associated with the launch of our next generation encapsulant as it reached the initial commercialization stage in late 2012. During the third quarter of 2013, we significantly reduced our research and development headcount to scale down general development efforts and focus our efforts to optimize our next-generation EVA encapsulant formulation. In addition, we eliminated the position of Chief Technology Officer, effective November 15, 2013, as our President and Chief Executive Officer directly oversaw the research and development function at that time.

Provision for Bad Debt Expense

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Bad debt expense	\$1,824	5.7%	\$486	0.5%	\$1,338	275.3%

Our provision for bad debt expense recorded for 2013 primarily related to two of our customers declaring bankruptcy. In 2012, the bad debt expense was driven by increased aged receivable balances, primarily in Asia, and one of our European customers declaring bankruptcy.

Goodwill Impairment

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Goodwill impairment	\$—	—%	\$82,524	86.6%	\$(82,524)	(100.0)%

Goodwill was fully impaired at the end of the first quarter of 2012 after we determined that our implied fair value of goodwill was lower than its carrying value. The goodwill impairment resulted from a reduction in sales and a decline in the market capitalization of our common stock.

Intangible Asset Impairment

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Intangible asset impairment	\$—	—%	\$135,480	142.1%	\$(135,480)	(100.0)%

Our intangible assets were fully impaired at the end of the fourth quarter of 2012. The impairment was driven by continued pricing pressure, trade complaints escalating in the industry, increased competition from non-EVA encapsulant materials and our initial 2013 sales outlook, which included the loss of First Solar as a customer.

Asset Impairment

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Asset impairment	\$194	0.6%	\$37,431	39.3%	\$(37,237)	(99.5)%

In 2013, we recorded \$0.2 million of impairment to our property, plant and equipment. The impairment was driven by our decision to cease the construction of our China manufacturing plant and to lease an existing building to conduct our manufacturing operations. As such, we wrote-off costs incurred to date relating to the construction of our own facility. In 2012, we tested our long-lived assets for impairment due to continued pricing pressure, trade complaints escalating in the industry, increased competition from non-EVA encapsulant materials and our initial 2013 sales outlook which included the loss of the First Solar, which resulted in a non-cash asset impairment of \$37.4 million to certain fixed assets.

Interest (Expense), Income, net

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Interest (expense), income, net	\$(30)	(0.1)%	\$(196)	(0.2)%	\$(166)	(84.7)%

The decrease in interest (expense) income, net was primarily the result of the decrease in the commitment fee expense for our prior amended Credit Agreement partially offset by lower interest income earned on our cash balances. In late 2012, we allocated more of our idle cash balances to regular checking accounts as we received greater benefit from reduced bank fees than interest being earned.

Amortization of Deferred Financing Costs

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Amortization of deferred financing costs	\$189	0.6%	\$1,079	1.1%	\$(890)	(82.5)%

Amortization of deferred financing costs decreased as a result of lower deferred financing costs associated with our amended Credit Agreement. We entered into the amendment in the third quarter of 2012 to reduce the amount available from \$150.0 million to \$25.0 million, avoid a financial covenant breach and reduce our commitment fees. In the third quarter of 2013, we terminated our Credit Agreement and wrote off the remaining balance of deferred financing costs.

Other Income

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Other income	\$—	—%	\$7,202	7.6%	\$(7,202)	(100.0)%

We received \$7.2 million in connection with the settlement of a trade secret misappropriation lawsuit during the first quarter of 2012.

Gain on Disposal of Fixed Assets

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Gain on disposal of fixed assets	\$185	0.6%	\$—	—%	\$185	100.0%

In conjunction with exiting the lease at our former corporate headquarters located at King Street, Enfield, Connecticut, we received \$0.2 million in connection with the sale of previously written off idle fixed assets.

Foreign Currency Transaction Loss

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Foreign currency transaction loss	\$(366)	(1.1)%	\$(281)	(0.3)%	\$85	30.2%

The foreign currency transaction loss impact was \$0.4 million for the year ended December 31, 2013 compared to a loss of \$0.3 million in the corresponding 2012 period. The change was primarily the result of volatility in the Euro exchange rate which increased by 4% for the year ended December 31, 2013 compared to the corresponding 2012 period.

Income Tax Benefit from Continuing Operations

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Income tax benefit from continuing operations	\$(7,349)	(23.1)%	\$(66,264)	(69.5)%	\$(58,915)	(88.9)%

Our effective income tax rate from continuing operations for the year ended December 31, 2013 was 28.7% compared to the U.S. federal statutory tax rate of 35.0%. Our effective tax rate from continuing operations was 23.9% for the year ended December 31, 2012.

In 2012, our operations generated a pre-tax loss in the United States as the solar industry continued to shift and expand in Asia. As such, we received an income tax benefit that reduced our expected loss at the U.S. federal statutory rate of 35%, prior to the impact of any deductions or non-deductible expenses. Our effective tax rate from continuing operations for the year ended December 31, 2012 of 23.9% reflected a reduction in the income tax benefit due to goodwill impairment charges that were not deductible for U.S. income tax purposes. The December 31, 2012 effective tax rate from continuing operations was further decreased for Malaysia pre-tax losses for which there is no tax benefit due to the tax holiday as well as other foreign losses for which no tax benefit has been recorded. Settlement of income tax audits resulted in a \$0.9 million benefit and a \$0.5 million benefit received upon filing our 2011 tax returns.

In 2013, similar to 2012, our operations generated a pre-tax loss in the United States as the solar industry continued to shift and expand in Asia. As such, we received an income tax benefit that

reduced our expected loss at the U.S. federal statutory rate of 35%, prior to the impact of any deductions or non-deductible expenses. The December 31, 2013 effective tax rate from continuing operations was further decreased for Malaysia pre-tax losses for which there is no tax benefit due to the tax holiday as well as other foreign losses for which no tax benefit has been recorded.

Net Loss from Continuing Operations

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Net loss from continuing operations . . .	\$(18,286)	(57.4)%	\$(211,575)	(221.9)%	\$(193,289)	(91.4)%

Net loss from continuing operations for the year ended December 31, 2013 decreased compared to the corresponding 2012 period driven by the 2012 goodwill impairment of \$82.5 million, the intangible asset impairment of \$135.5 million and the property, plant and equipment impairment of \$37.4 million, all of which did not recur. These decreases combined with lower SG&A and R&D expenses more than offset lower net sales, lower gross profit and higher bad debt expense for the year ended December 31, 2013 as well as the receipt of \$7.2 million in 2012 for the trade secret settlement that did not recur.

Cost Reduction Actions

On January 22, 2013, the Board of Directors approved a cost reduction action to cease manufacturing at our East Windsor, Connecticut facility after being notified that our largest customer selected an alternative supplier. In addition, we executed further headcount reductions during the third and fourth quarters of 2013 to better align our cost structure with current sales. In addition, on October 15, 2013, we eliminated the positions of Chief Operating Officer, Vice President of Human Resources, Chief Technology Officer and Vice President of Finance, effective November 15, 2013. In total, we executed headcount reductions of approximately 180 employees on a global basis for the year ended December 31, 2013.

In conjunction with these headcount reductions, we recognized severance and related benefits of \$1.7 million in cost of sales and \$2.6 million in selling, general and administrative expense. The restructuring accrual as of December 31, 2013 consists of \$1.6 million for severance and benefits and \$0.3 million of other exit costs for the year ended December 31, 2013.

A rollforward of the restructuring accrual activity was as follows:

	December 31, 2013
Balance at December 31, 2012	\$ 0.2
Additions	4.3
Reductions	(2.6)
Balance at December 31, 2013	<u>\$ 1.9</u>

Net Earnings from Discontinued Operations

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Net earnings from discontinued operations . . .	\$—	—%	\$4,228	4.4%	\$(4,228)	(100.0)%

Net earnings from discontinued operations was \$4.2 million for the year ended December 31, 2012, which was due to the finalization of the taxable gain associated with the sale of the QA business resulting in lower than previously estimated income tax expense. Refer to Note-3 Discontinued Operations in the Notes to the Consolidated Financial Statements for further information.

Net Loss

	Years Ended December 31,					
	2013		2012		Change	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	%
Net loss	\$(18,286)	(57.4)%	\$(207,347)	(217.5)%	\$(189,061)	(91.2)%

Net loss from continuing operations for the year ended December 31, 2013 decreased compared to the corresponding 2012 period driven by the 2012 goodwill impairment of \$82.5 million, the intangible asset impairment of \$135.5 million and the property, plant and equipment impairment of \$37.4 million, all of which did not recur. These decreases combined with lower SG&A and R&D expenses more than offset lower net sales, lower gross profit and higher bad debt expense for the year ended December 31, 2013 as well as the receipt of \$7.2 million in 2012 for the trade secret settlement that did not recur.

Non-GAAP Loss Per Share

To supplement our consolidated financial statements, we use a non-GAAP financial measure called non-GAAP loss per share from continuing operations (“non-GAAP EPS”). Non-GAAP EPS is defined as net loss from continuing operations not including the tax effected impact of deferred financing costs, stock-based compensation and restructuring divided by the weighted-averages shares outstanding and is defined for the periods presented in the following table. The weighted-average common share count for GAAP reporting does not include the number of potentially dilutive common shares since these potential shares do not share in any loss generated and are anti-dilutive. However, we have included these shares in our non-GAAP EPS calculations when we have generated non-GAAP net earnings and such shares are dilutive in those periods. Refer to the weighted-average shares reconciliation below. All amounts are stated in thousands except per share amounts and unless otherwise noted.

We believe that non-GAAP EPS provides meaningful supplemental information regarding our performance by excluding certain expenses that may not be indicative of the core business operating results and may help in comparing current period results with those of prior periods as well as with our peers. Non-GAAP EPS is one of the main metrics used by management and our Board of Directors to plan and measure our operating performance.

Although we use non-GAAP EPS as a measure to assess the operating performance of our business, non-GAAP EPS has significant limitations as an analytical tool because it excludes certain material costs. Because non-GAAP EPS does not account for these expenses, its utility as a measure of our operating performance has material limitations. The omission of restructuring and stock-based compensation expense limits the usefulness of this measure. Non-GAAP EPS also adjusts for the related tax effects of the adjustments and the payment of taxes is a necessary element of our operations. Because of these limitations, management does not view non-GAAP EPS in isolation and uses other measures, such as Adjusted EBITDA, net loss from continuing operations, net sales, gross loss and operating loss, to measure operating performance.

On January 30, 2015, we effected a one-for-three reverse split of our common stock. As a result of the reverse stock split, the number of issued and outstanding shares of our common stock was reduced to approximately 18.1 million. The change in the number of shares resulting from the reverse stock split has been applied retroactively to all shares and per share amounts presented in this Annual Report on Form 10-K.

During 2014, we included certain non-recurring income and expenses to arrive at non-GAAP EPS. Information regarding these items is set forth below:

- Non-cash reversal of Spanish grants: During 2014, we received notification that we fulfilled the necessary grant requirements provided by the government. We are excluding this positive benefit as it is non-cash in nature and the initial charge recorded in prior periods was also excluded. As such, we do not believe this benefit is reflective of the operational conditions of our core business and may aid in comparing its current period results with those of prior periods.
- Non-cash reversal of loss contingency: During 2014, we reversed \$4.1 million of an accrual related to a quality claim by one of our customers in connection with a non-encapsulant product that we purchased from a vendor in 2005 and 2006 and resold. We stopped selling this product in 2006. We have concluded that the settlement of this contingency is no longer probable and is remote. We are excluding this positive benefit as it is non-cash in nature and relates to a loss contingency recorded in prior periods. As such, we do not believe this benefit is reflective of the operational conditions of our core business and may aid in comparing its current period results with those of prior periods.
- Loss on reclassification on held for sale assets: This non-cash write-down relates to our former real property located in East Windsor, Connecticut. We sold this real property and have moved our corporate office and research and development functions back to our Enfield, Connecticut facility.
- Tax impact of option cancellation: The non-cash deferred tax asset write-off related to vested stock options that were cancelled in 2014 due to terminated employees associated with prior restructuring actions. We believe this non-cash charge was directly associated with prior restructuring actions and will not occur in our normal future operations.

	Year Ended December 31, 2014 (unaudited)	Year Ended December 31, 2013 (unaudited)	Year Ended December 31, 2012 (unaudited)
Net loss from continuing operations	\$ (22,733)	\$ (18,286)	\$ (211,575)
Adjustments to net loss from continuing operations:			
Amortization of intangibles	—	—	8,432
Amortization of deferred financing costs	—	189	1,079
Stock-based compensation expense	2,380	1,902	3,494
Restructuring costs	(356)	4,331	1,069
Accelerated depreciation	—	—	2,819
Goodwill impairment	—	—	82,524
Intangible asset impairment	—	—	135,480
Asset impairment	—	194	37,431
Non-cash reversal of Spanish grants	(974)	—	—
Non-cash reversal of loss contingency	(4,089)	—	—
Loss on reclassification on held for sale assets	1,179	—	—
Tax impact of option cancellation	1,058	—	—
Tax effect of adjustments	677	(2,154)	(62,649)
Non-GAAP net loss from continuing operations	<u>\$ (22,858)</u>	<u>\$ (13,824)</u>	<u>\$ (1,896)</u>
Basic shares outstanding GAAP	10,920,200	13,873,289	13,771,536
Diluted shares outstanding GAAP	10,920,200	13,873,289	13,771,536
Stock options	—	—	—
Restricted common stock	—	—	—
Diluted shares outstanding non-GAAP	<u>10,920,200</u>	<u>13,873,289</u>	<u>13,771,536</u>
Diluted net loss per share from continuing operations	<u>\$ (2.08)</u>	<u>\$ (1.32)</u>	<u>\$ (15.37)</u>
Diluted non-GAAP net loss per share from continuing operations	<u>\$ (2.09)</u>	<u>\$ (1.00)</u>	<u>\$ (0.14)</u>

Adjusted EBITDA

We define Adjusted EBITDA as net loss from continuing operations before interest income and expense, income tax expense (benefit), depreciation expense, amortization of deferred financing costs, intangible asset amortization, restructuring, stock-based compensation expense, intangible asset impairment, goodwill impairment, other asset impairment and certain non-recurring income and expenses from the results of continuing operations.

We present Adjusted EBITDA because it is one of the main metrics used by our management and our Board of Directors to plan and measure our Segment's operating performance. Our management believes that Adjusted EBITDA is useful to investors because Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in their evaluation of the operating performance of companies in industries similar to ours. We also believe Adjusted EBITDA is useful to our management and investors as a measure of comparative operating performance from period to period. The DLJ Acquisition in 2007 had a significant impact on our capital structure and resulted in accounting charges that make period to period comparisons of our core operations difficult and resulted in expenses that may not be indicative of our future operating performance. For example, as a result of the DLJ Acquisition, we incurred significant non-cash amortization charges. Adjusted EBITDA removes the impact of changes to our capital structure and asset base (primarily amortization expense resulting from the DLJ Acquisition). By reporting Adjusted EBITDA, we provide a basis for

comparison of our business operations between current, past and future periods. In addition, measures similar to Adjusted EBITDA are one of the metrics utilized to measure performance based bonuses paid to certain of our managers and were used to determine compliance with financial covenants under our prior Credit Agreement.

Adjusted EBITDA, however, does not represent and should not be considered as an alternative to net income or cash flow from operations, as determined in accordance with generally accepted accounting principles, and our calculations thereof may not be comparable to similarly entitled measures reported by other companies. Although we use Adjusted EBITDA as a measure to assess the operating performance of our business, Adjusted EBITDA has significant limitations as an analytical tool because it excludes certain material costs. For example, it does not include interest expense, which was a necessary element of our costs. Because we use capital assets, depreciation expense is a necessary element of our costs and ability to generate net sales. In addition, the omission of the substantial amortization expense, impairment associated with our goodwill, intangible assets and property, plant and equipment and restructuring charges, further limits the usefulness of this measure. Adjusted EBITDA also does not include the payment of taxes, which is also a necessary element of our operations. Because Adjusted EBITDA does not account for these expenses, its utility as a measure of our operating performance has material limitations. Because of these limitations management does not view Adjusted EBITDA in isolation and also uses other measures, such as net loss, net sales, gross margin and operating loss, to measure operating performance.

We report our business in one aggregated segment. We measure segment performance based on net sales, Adjusted EBITDA and non-GAAP EPS. See Note 16-Reportable Segment and Geographical Information located in the Notes to the Consolidated Financial Statements for a definition of Adjusted EBITDA, a reconciliation to net loss from continuing operations and further information. Net sales for our segment and non-GAAP EPS from continuing operations (“non-GAAP EPS”) are described in further detail above. The discussion that follows is a summary analysis of the primary changes in Adjusted EBITDA for the year ended December 31, 2014 compared to the year ended December 31, 2013.

	Years Ended December 31,			
	2014	2013	Change	
	Amount	Amount	Amount	%
Adjusted EBITDA	<u>\$(15,559)</u>	<u>\$(17,150)</u>	\$1,591	9.3%
Adjusted EBITDA as % of segment net sales	<u>(39.6)%</u>	<u>(53.8)%</u>		

Adjusted EBITDA as a percentage of net sales improved for the year ended December 31, 2014 compared to 2013 driven by higher sales volume, lower SG&A and R&D expenses due to our prior-cost reduction actions and favorable foreign exchange impact that more than offset a decline in ASP, inefficiencies ramping production at FeiYu, lower yield and lower profitability at our Malaysia facility due to inefficiencies associated with winding down and then recommencing operations once we elected to keep the facility open and costs necessary to start our manufacturing plant in China.

	Years Ended December 31,			
	2013	2012	Change	
	Amount	Amount	Amount	%
Adjusted EBITDA	<u>\$(17,150)</u>	<u>\$3,123</u>	\$(20,273)	(649.2)%
Adjusted EBITDA as % of segment net sales	<u>(53.8)%</u>	<u>3.3%</u>		

Adjusted EBITDA as a percentage of net sales decreased for the year ended December 31, 2013 compared to 2012 due to lower ASP and reduced operating leverage associated with the sales volume decrease, partially offset by the receipt of \$7.2 million for the trade secret settlement.

Quarterly Consolidated Results of Operations

The following tables set forth our consolidated results of continuing operations and Adjusted EBITDA on a quarterly basis for the year ended December 31, 2014 and the year ended December 31, 2013:

	Year Ended December 31, 2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Unaudited) (dollars in thousands)			
Statement of Operations Data:				
Net sales	\$ 9,336	\$11,222	\$ 9,514	\$ 9,216
Cost of sales	<u>10,017</u>	<u>12,406</u>	<u>10,544</u>	<u>11,555</u>
Gross loss	(681)	(1,184)	(1,030)	(2,339)
Selling, general and administrative expenses	2,975	2,366	2,455	5,036
Research and development	256	295	291	318
Provision for bad debt expense	<u>24</u>	<u>7</u>	<u>249</u>	<u>203</u>
Operating loss	(3,936)	(3,852)	(4,025)	(7,896)
Interest income (expense) net	4	16	3	4
Other income	—	2,766	—	868
(Loss) gain on disposal of fixed assets	(433)	2	(20)	—
Foreign currency transaction (loss) gain	<u>(138)</u>	<u>24</u>	<u>259</u>	<u>153</u>
Loss from continuing operations before income tax expense (benefit)	(4,503)	(1,044)	(3,783)	(6,871)
Income tax expense (benefit) from continuing operations	<u>139</u>	<u>596</u>	<u>(559)</u>	<u>6,356</u>
Net loss from continuing operations	<u>\$ (4,642)</u>	<u>\$ (1,640)</u>	<u>\$ (3,224)</u>	<u>\$ (13,227)</u>
Adjusted EBITDA:				
Adjusted EBITDA	\$ (2,923)	\$ (3,982)	\$ (2,930)	\$ (5,724)
Depreciation expense	(511)	(515)	(514)	(538)
Interest income (expense) net	4	16	3	4
Income tax (expense) benefit	(139)	(596)	559	(6,356)
Non-cash reversal of loss contingency	—	4,089	—	—
Loss on reclassification	—	(1,323)	—	144
Non-cash reversal of Spanish grants	—	—	—	974
Restructuring	(27)	757	—	(374)
Stock-based compensation	(613)	(88)	(322)	(1,357)
(Loss) gain on disposal of property, plant and equipment	<u>(433)</u>	<u>2</u>	<u>(20)</u>	<u>—</u>
Net loss from continuing operations	<u>\$ (4,642)</u>	<u>\$ (1,640)</u>	<u>\$ (3,224)</u>	<u>\$ (13,227)</u>

Year Ended December 31, 2013

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Unaudited)			
	(dollars in thousands)			
Statement of Operations Data:				
Net sales	\$11,215	\$ 7,755	\$ 6,219	\$ 6,671
Cost of sales	11,916	7,396	7,040	7,733
Gross (loss) profit	(701)	359	(821)	(1,062)
Selling, general and administrative expenses	4,137	4,305	4,570	5,310
Research and development	904	709	703	354
Provision for (reversal of) bad debt expense	340	1,898	(138)	(276)
Asset impairment	—	—	—	194
Operating loss	(6,082)	(6,553)	(5,956)	(6,644)
Interest income (expense) net	1	(7)	—	(24)
Amortization of deferred financing costs	(17)	(17)	(155)	—
(Loss) gain on disposal of fixed assets	—	(40)	140	85
Foreign currency transaction gain (loss)	44	(108)	(231)	(71)
Loss from continuing operations before income tax benefit	(6,054)	(6,725)	(6,202)	(6,654)
Income tax benefit from continuing operations	(1,844)	(2,234)	(268)	(3,003)
Net loss from continuing operations	<u>\$ (4,210)</u>	<u>\$ (4,491)</u>	<u>\$ (5,934)</u>	<u>\$ (3,651)</u>
Adjusted EBITDA:				
Adjusted EBITDA	\$ (3,619)	\$ (5,286)	\$ (4,646)	\$ (3,599)
Depreciation expense	(492)	(524)	(487)	(521)
Amortization of deferred financing costs	(17)	(17)	(155)	—
Interest income (expense) net	1	(7)	—	(24)
Income tax benefit	1,844	2,234	268	3,003
Asset impairment	—	—	—	(194)
Restructuring	(1,573)	(91)	(491)	(2,176)
Stock-based compensation	(354)	(760)	(563)	(225)
(Loss) gain on disposal of property, plant and equipment	—	(40)	140	85
Net loss from continuing operations	<u>\$ (4,210)</u>	<u>\$ (4,491)</u>	<u>\$ (5,934)</u>	<u>\$ (3,651)</u>

Financial Condition, Liquidity and Capital Resources

We have funded our operations primarily through our existing cash balance. As of December 31, 2014, our principal source of liquidity was \$16.6 million of cash and \$8.3 million of income tax receivables. Our principal needs for liquidity have been and for the foreseeable future will continue to be for capital investments and working capital. Payment terms are currently longer in China than in many other locations which has delayed cash receipts from certain of our customers. Although we believe that our available cash will be sufficient to meet our liquidity needs, including for capital investments, through at least the next 12 months, if we are unable to collect our accounts receivable, or fail to receive payment of accounts receivable in a timely fashion, or obtain bank acceptance notes from our customers, our financial condition and results of operations will be negatively affected. In order to mitigate this risk, we are attempting to obtain bank acceptance notes with respect to the accounts receivables from certain of our customers. We are also exploring working capital credit and accounts receivable factoring facilities in China to increase our liquidity options. In addition, we could entertain the sale-leaseback of certain owned real property.

If we were able to increase our sales volumes, our working capital investment could be significant. If we are not able to fund our working capital needs, we will have to slow our projected growth which may delay our expected return to profitability. We expect to fund our expected growth with our existing cash and income tax receivable, potential working capital financing arrangements and expected EBITDA generation.

Our cash and cash equivalents balance is located in the following geographies:

	<u>Year Ended December 31, 2014</u>
United States	\$ 8,980
Spain	2,370
Malaysia	2,005
China	3,134
Hong Kong	<u>63</u>
Consolidated	<u>\$16,552</u>

As disclosed in Note 13 to the Notes to the Consolidated Financial Statements, we no longer permanently reinvest our Malaysia subsidiary's earnings. Based upon the Malaysia subsidiary's liabilities, the undistributed earnings of our Malaysia subsidiary will be repatriated in a tax free manner. We do not permanently invest our Spain earnings and as such, this cash balance is available for dividend repatriation. We have accrued for this tax liability. We have not elected to permanently re-invest our Hong Kong and China earnings. However, we plan to utilize our cash located in Hong Kong and China to fund a portion of our capital investment in China.

Cash Flows

Cash Flow from Operating Activities from Continuing Operations

Net cash used in operating activities from continuing operations was \$14.4 million for the year ended December 31, 2014 compared to net cash used of \$22.8 million for the year ended December 31, 2013. Net loss plus non-cash adjustments ("cash loss") decreased by approximately \$6.0 million for the year ended December 31, 2014 compared to the same period in 2013 driven by lower SG&A and research and development expenses. In addition, we received \$11.9 million of income tax refunds in 2014. These positive impacts were partially offset by an increase in working capital and approximately \$1.2 million of restructuring payments during 2014. The higher working capital was driven by \$8.2 million of higher accounts receivable caused by longer payment terms in China and our higher net sales.

Net cash used in operating activities from continuing operations was \$22.8 million for the year ended December 31, 2013 compared to cash generated of \$33.9 million for the year ended December 31, 2012. Cash loss increased by approximately \$22.6 million for the year ended December 31, 2013 compared to the same period in 2012. The increase was driven by the \$7.2 million trade secret settlement received in 2012 that did not recur in 2013, reduced net sales and lower gross profit compared to the prior year. In addition, we incurred approximately \$2.6 million of restructuring payments during 2013 and received less working capital benefit, primarily from a decrease in the amount of inventory reduction.

Net cash provided by operating activities from continuing operations was \$33.9 million for the year ended December 31, 2012 compared to \$46.8 million for the year ended December 31, 2011. Cash earnings decreased by approximately \$39.2 million for the year ended December 31, 2012 compared to the same period in 2011. These reductions were driven by reduced net sales and lower gross profit in 2012 compared to the prior year. These were offset by \$7.2 million received in connection with the

settlement of the JPS lawsuit that occurred in the first quarter of 2012, lower income tax payments and improved working capital, including lower accounts receivable and raw material inventory.

Cash Flow from Operating Activities from Discontinued Operations

Net cash used in operating activities from discontinued operations was less than \$0.1 million for the year ended December 31, 2014 due to a cash payment related to a state income tax audit.

Net cash provided by operating activities from discontinued operations was \$0.8 million for the year ended December 31, 2013 primarily due to cash received for our prior state tax receivable relating to the final gain on the sale of the QA business.

Net cash used in operating activities from discontinued operations was less than \$0.1 million for the year ended December 31, 2012 primarily due to the payment of accrued state taxes relating to the gain on the sale of the QA business.

Cash Flow from Investing Activities from Continuing Operations

Net cash provided by investing activities was \$3.7 million for the year ended December 31, 2014 primarily due to the sale of land-use-rights in China and our East Windsor, Connecticut facility that more than offset capital investments. The 2014 capital investments mainly related to building out our leased facility in China and enhancements to our production equipment to convert to paperless products.

Net cash used in investing activities was \$2.1 million for the year ended December 31, 2013. The 2013 capital investments mainly related to building out our leased facility in China and enhancements to our production equipment to further our conversion to paperless products.

Net cash used in investing activities was \$10.7 million for the year ended December 31, 2012. The 2012 capital investments mainly related to our 20,000 square-foot state-of-the-art research and development laboratory, purchase of land near Shanghai, China and the completion of the retrofit of our former East Windsor, Connecticut building.

We anticipate 2015 consolidated capital investments to be approximately \$2.0 million to \$6.0 million, and we expect to fund these from our existing cash balance. However, we may delay a portion of these capital investments if we are not timely in collecting our accounts receivable or do not arrange other working capital financing options.

We use an alternative non-GAAP measure of liquidity called free cash flow. We define free cash flow as cash provided by operating activities from continuing operations less capital investments. Free cash flow was \$(17.5) million, \$(25.0) million and \$23.2 million in the years ended December 31, 2014, 2013 and 2012, respectively. We believe that free cash flow is an important measure of our overall liquidity and our ability to fund future growth and provide a return to stockholders. Free cash flow does not reflect, among other things, mandatory debt service, other borrowing activity, discretionary dividends on our common stock and acquisitions.

We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated or used by the business that, after the acquisition of property and equipment, including information technology infrastructure, land and buildings, can be used for strategic opportunities, including reinvestment in our business, making strategic acquisitions, and strengthening the Consolidated Balance Sheets. We also use this non-GAAP financial measure for financial and operational decision making and as a means to evaluate period-to-period comparisons.

Analysis of free cash flow also facilitates management's comparisons of our operating results to competitors' operating results. A limitation of using free cash flow versus the GAAP measure of cash

provided by operating activities from continuing operations as a means for evaluating our business is that free cash flow does not represent the total increase or decrease in the cash balance from operations for the period because it excludes cash used for capital investments during the period. Our management compensates for this limitation by providing information about our capital investments on the face of the Consolidated Statements of Cash Flows and in the above discussion.

	Year Ended December 31, 2014 <u>(unaudited)</u>	Year Ended December 31, 2013 <u>(unaudited)</u>	Year Ended December 31, 2012 <u>(unaudited)</u>
Cash (used in) provided by operating activities from continuing operations	\$(14.4)	\$(22.8)	\$ 33.9
Less: capital investments	<u>(3.1)</u>	<u>(2.2)</u>	<u>(10.7)</u>
Free cash flow	<u>\$(17.5)</u>	<u>\$(25.0)</u>	<u>\$ 23.2</u>

Cash Flow from Financing Activities from Continuing Operations

Net cash used in financing activities was \$30.4 million for the year ended December 31, 2014 primarily due to the \$21.7 million of proceeds received for the stock issuance related to the transaction with Zhenfa, offset by the Special Dividend payment of \$22.6 million and the \$24.0 million repurchase of common stock associated with the Offer. The Special Dividend was transferred from our bank account to our transfer agent prior to December 31, 2014. In addition, we incurred fees related to these transactions of \$5.4 million.

Net cash provided by financing activities was less than \$0.1 million for the year ended December 31, 2013 resulting from proceeds received from common stock issued under our employee stock purchase plan.

Net cash used in financing activities was less than \$0.1 million for the year ended December 31, 2012 due to proceeds received from common stock issued under the employee stock purchase plan partially offset by transaction costs related to the amendment of our revolving credit facility.

Credit Facilities

2011 Credit Agreement

On October 7, 2011 we entered into a multicurrency credit agreement (the “Credit Agreement”) with certain of our domestic subsidiaries, as guarantors (the “Guarantors”), the lenders from time to time party thereto (“the Lenders”) and Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer (“the Administrative Agent”). The Credit Agreement originally provided for a revolving senior credit facility of up to \$150.0 million which was to mature on October 7, 2015. The Credit Agreement originally included a \$50.0 million sublimit for multicurrency borrowings, a \$25.0 million sublimit for the issuance of letters of credit and a \$5.0 million sublimit for swing line loans. The Credit Agreement also contained an expansion option permitting us to request an increase of the revolving senior credit facility from time to time up to an aggregate additional \$50.0 million from any of the lenders or other eligible lenders as may have been invited to join the Credit Agreement, that elected to make such increase available, upon the satisfaction of certain conditions.

The obligations under the Credit Agreement were unconditional and were guaranteed by substantially all of our existing and subsequently acquired or organized domestic subsidiaries. The Credit Agreement and related guarantees were secured on a first-priority basis, and by security interests (subject to liens permitted under the Credit Agreement) in substantially all tangible and intangible

assets owned by us and each of our domestic subsidiaries, subject to certain exceptions, including limiting pledges to 66% of the voting stock of foreign subsidiaries.

Borrowings under the Credit Agreement may have been used to finance working capital, capital investments and other lawful corporate purposes, including the financing of certain permitted acquisitions, payment of dividends and/or stock repurchases, subject to certain restrictions.

Each Eurocurrency rate loan bore interest at the Eurocurrency rate (as was defined in the Credit Agreement) plus an applicable rate that ranged from 200 basis points to 250 basis points based on our Consolidated Leverage Ratio (as was defined in the Credit Agreement) plus, when funds were lent by certain overseas lending offices, an additional cost.

Base rate loans and swing line loans bore interest at the base rate (as defined below) plus the applicable rate, which ranged from 100 basis points to 150 basis points based on our Consolidated Leverage Ratio. The base rate was the highest of (i) the Federal funds rate (as published by the Federal Reserve Bank of New York from time to time) plus ½ of 1%, (ii) Bank of America's "prime rate" as publicly announced from time to time, and (iii) the Eurocurrency rate for Eurocurrency loans of one month plus 1%.

If any amount was not paid when due under the Credit Agreement or an event of default existed, then, at the request of the lenders holding a majority of the unfunded commitments and outstanding loans, obligations under the Credit Agreement would have bore interest at a rate per annum equal to 200 basis points higher than the interest rate otherwise applicable. In addition, we are required to pay the Lenders a commitment fee equal to an applicable rate, which ranged from 25 basis points to 35 basis points based on our Consolidated Leverage Ratio from time to time, multiplied by the actual daily amount of the Lender's aggregate unused commitments under the Credit Agreement. The facility fee was payable quarterly in arrears. We would also pay a letter of credit fee equal to the applicable rate for Eurocurrency rate loans times the dollar equivalent of the daily amount available to be drawn under such letter of credit.

We could have optionally prepaid the loans or irrevocably reduced or terminated the unutilized portion of the commitments under the Credit Agreement, in whole or in part, without premium or penalty (other than if Eurocurrency loans were prepaid prior to the end of the applicable interest period) at any time by the delivery of a notice to that effect as provided under the Credit Agreement.

2012 Amendment to the Credit Agreement

On September 28, 2012 (the "Effective Date"), we, the Guarantors, the Lenders and the Administrative Agent entered into the First Amendment to Credit Agreement and Security Agreement (the "First Amendment"), amending (i) the Credit Agreement and (ii) the Security Agreement and dated as of October 7, 2011, among us, the Guarantors and the Administrative Agent.

The First Amendment reduced the amount available under the revolving senior credit facility from \$150.0 million to \$25.0 million. During the cash collateral period, we may have borrowed under the revolving senior credit facility. However, we must have maintained cash collateral deposited by us and/or our subsidiaries in an account controlled by the Administrative Agent in an amount equal to any outstanding borrowing under the Credit Agreement, as amended. In addition, we were not required to comply with the financial covenants set forth in the Credit Agreement, as amended, during the cash collateral period.

Termination of Credit Agreement

On September 16, 2013, we terminated our Credit Agreement. We had no outstanding indebtedness pursuant to the amended Credit Agreement. We cancelled the Credit Agreement since we were not able to draw on it without posting cash collateral and we had liquidity with our then existing

cash balance to run our operations. As a part of the termination, we wrote-off approximately \$0.1 million of the remaining unamortized deferred financing costs associated with the Credit Agreement.

Contractual Obligations and Other Commitments

As of December 31, 2014, our contractual obligations and other commitments were as follows:

	Payments Due by Period				
	Total	2015	2016	2017	Thereafter
	(dollars in thousands)				
Operating lease obligations	\$572	\$168	\$166	\$166	\$72
Restructuring	\$ 32	\$ 32	\$ —	\$ —	\$—
Other contractual obligations(a)	\$204	\$204	\$ —	\$ —	\$—
Total	<u>\$808</u>	<u>\$404</u>	<u>\$166</u>	<u>\$166</u>	<u>\$72</u>

(a) Other contractual obligations consist of a deferred compensation arrangement with certain members of management in the amount of \$0.2 million. Other contractual obligations exclude our ASC 740 liabilities for unrecognized tax benefits. See Note 13 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We have no off-balance sheet financing arrangements.

Effects of Inflation

Inflation generally affects us by increasing costs of raw materials, labor and equipment. During the year ended 2014, we were not materially affected by inflation.

Recently Issued Accounting Standards

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” The amendments contained in this update change the criteria for reporting discontinued operations and enhance the reporting requirements for discontinued operations. Under the revised standard, a discontinued operation must represent a strategic shift that has or will have a major effect on an entity’s operations and financial results. Examples could include a disposal of a major line of business, a major geographical area, a major equity method investment or other major parts of an entity. The revised standard will also allow an entity to have certain continuing cash flows or involvement with the component after the disposal. Additionally, the standard requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. This ASU is effective for reporting periods beginning after December 15, 2014 with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issue. We are currently evaluating the new guidance to determine the impact it may have to our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (Topic 606). This ASU is intended to clarify the principles for recognizing revenue by removing inconsistencies and weaknesses in revenue requirements; providing a more robust framework for addressing revenue issues; improving comparability of revenue recognition practices across entities,

industries, jurisdictions and capital markets; and providing more useful information to users of financial statements through improved revenue disclosure requirements. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2016. We are currently evaluating the new guidance to determine the impact it may have to our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern”. This update provides guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financial statements are issued. This ASU is effective for the annual reporting period ending after December 15, 2016, and for interim and annual reporting periods thereafter, with early adoption permitted. We are currently evaluating the new guidance to determine the impact it may have to our consolidated financial statements.

In November 2014, the FASB issued ASU No. 2014-17 “Business Combinations” (Topic 805). This update is to provide guidance on whether and at what threshold an acquired entity that is a business or nonprofit activity can apply pushdown accounting in its separate financial statements. The amendments in this update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The amendments in this update are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. We are currently evaluating the new guidance to determine the impact it may have to our consolidated financial statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Risk

We have foreign currency exposure related to our operations outside of the United States, other than Malaysia where the functional currency is the U.S. dollar. This foreign currency exposure arises primarily from the translation or re-measurement of our foreign subsidiaries’ financial statements into U.S. dollars. Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies could adversely affect our consolidated results of operations. For the years ended December 31, 2014, 2013 and 2012, approximately \$30.3 million, or 77.1%, \$18.3 million, or 57.5% and \$38.9 million, or 40.8% respectively, of our net sales were denominated in foreign currencies. We expect that the percentage of our net sales denominated in foreign currencies may increase in the foreseeable future as we expand our international operations in China. The costs related to our foreign currency net sales are largely denominated in the same respective currency, thereby partially offsetting our foreign exchange risk exposure. However, for net sales not denominated in U.S. dollars, if there is an increase in the rate at which a foreign currency is exchanged for U.S. dollars, it will require more of the foreign currency to equal a specified amount of U.S. dollars than before the rate increase. In such cases and if we price our products in the foreign currency, we will receive less in U.S. dollars than we did before the rate increase went into effect. If we price our products in U.S. dollars and competitors price their products in local currency, an increase in the relative strength of the U.S. dollar could result in our price not being competitive in a market where business is transacted in the local currency.

In addition, our assets and liabilities of certain foreign operations are recorded in foreign currencies and translated into U.S. dollars. If the U.S. dollar increases in value against these foreign currencies, the value in U.S. dollars of the assets and liabilities recorded in these foreign currencies will

decrease. Conversely, if the U.S. dollar decreases in value against these foreign currencies, the value in U.S. dollars of the assets and liabilities originally recorded in these foreign currencies will increase. Thus, increases and decreases in the value of the U.S. dollar relative to these foreign currencies have a direct impact on the value in U.S. dollars of our foreign currency denominated assets and liabilities, even if the value of these items has not changed in their original currency.

We do not engage in any hedging activities related to this exchange rate risk. As such, a 10% change in the U.S. dollar exchange rates in effect as of December 31, 2014 would have caused a change in consolidated net assets of approximately \$2.1 million and a change in net sales of approximately \$3.0 million.

Interest Rate Risk

As of December 31, 2014, we have no debt and no credit facility. Our current interest rate risk relates to interest income earned on idle cash and cash equivalents.

Raw Material Price Risk

Resin is the major raw material that we purchase for production of our encapsulants and paper liner is the second largest raw material cost. The price and availability of these materials are subject to market conditions affecting supply and demand. In particular, the price of many of our raw materials can be impacted by fluctuations in natural gas, petrochemical, pulp prices and supply and demand dynamics in other industries. During 2011 and 2010, the price of our raw materials, primarily resin, increased and negatively impacted our cost of sales by approximately \$4.0 million and \$6.8 million, respectively. Resin prices began to moderate during the latter part of 2011, and our cost of sales was favorably impacted by approximately \$7.0 million in 2012. In 2013 and 2014, we did not experience any significant raw material inflation. We currently do not have a hedging program in place to manage increases in raw material prices. However, we try to mitigate raw material inflation by taking advantage of early payment discounts and ensuring that we have multiple sourcing alternatives for each of our raw materials. Increases in raw material prices could have a material adverse effect on our gross margins and results of operations, particularly in circumstances where we have entered into fixed price contracts with our customers.

ITEM 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of STR Holdings, Inc.

We have audited the accompanying consolidated balance sheets of STR Holdings, Inc. (the “Company”) as of December 31, 2014 and 2013 and the related consolidated statements of comprehensive loss, changes in stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2014. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule listed in Item 15(a)(2) for the years ended December 31, 2014 and 2013. STR Holdings, Inc.’ management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting for the year ended December 31, 2014. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion for the year ended December 31, 2014. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimate made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of STR Holdings, Inc. as December 31, 2014 and 2013 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing Item 15(a)(2) for the years ended December 31, 2014 and 2013 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

We have also audited the adjustment to the 2012 consolidated financial statements to retrospectively apply the change in the number of shares outstanding resulting from the reverse stock split described in Note 4. In our opinion, such adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the 2012 consolidated financial statements of the Company other than with respect to the adjustment and, accordingly, we do not express an opinion or any form of assurance on the 2012 consolidated financial statements taken as a whole.

/s/ UHY LLP

New York, NY
March 26, 2015

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of STR Holdings, Inc.:

In our opinion, the consolidated statements of comprehensive loss, of change in stockholders' equity, and of cash flows for the year ended December 31, 2012 before the effects of the adjustments to retrospectively apply a change in the number of shares outstanding resulting from a reverse stock split described in Note 4, present fairly, in all material respects, the results of operations and cash flows of STR Holdings, Inc. and its subsidiaries for the year ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America (the 2012 financial statements before the effects of the adjustments discussed in Note 4 are not presented herein). In addition, in our opinion, the financial statement schedule listed in the index under item 15(a)(2) for the year ended December 31, 2012 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit. We conducted our audit, before the effects of the adjustments described above, of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were not engaged to audit, review, or apply any procedures to the adjustment to retrospectively apply a change in the number of shares outstanding resulting from a reverse stock split described in Note 4 and accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have properly applied. Those adjustments were audited by other auditors.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut

March 15, 2013

STR Holdings, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

All amounts in thousands except share and per share amounts

	December 31, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 16,552	\$ 58,173
Accounts receivable, trade, less allowances for doubtful accounts of \$833 and \$2,051 in 2014 and 2013, respectively	12,057	4,771
Inventories, net	8,248	8,557
Prepaid expenses	1,789	925
Deferred tax assets	72	2,081
Income tax receivable	8,252	11,812
Other current assets	2,283	561
Total current assets	49,253	86,880
Property, plant and equipment, net	20,195	28,398
Long-term deferred tax assets	—	13,198
Other noncurrent assets	354	733
Total assets	\$ 69,802	\$ 129,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 2,653	\$ 2,636
Accrued liabilities	2,780	8,432
Income taxes payable	1,865	859
Other current liabilities	204	630
Total current liabilities	7,502	12,557
Deferred tax liabilities	72	—
Other long-term liabilities	4,505	4,790
Total liabilities	12,079	17,347
COMMITMENTS AND CONTINGENCIES (Note 9)		
Stockholders' equity		
Preferred stock, \$0.01 par value, 20,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized; 18,074,291 and 18,073,051 issued and outstanding, respectively as of December 31, 2014 and 13,962,305 and 13,961,065 issued and outstanding, respectively as of December 31, 2013	181	139
Treasury stock, at cost	(57)	(57)
Additional paid-in capital	230,276	236,114
Accumulated deficit	(168,618)	(122,421)
Accumulated other comprehensive loss, net of taxes	(4,059)	(1,913)
Total stockholders' equity	57,723	111,862
Total liabilities and stockholders' equity	\$ 69,802	\$ 129,209

See accompanying notes to these consolidated financial statements.

STR Holdings, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
All amounts in thousands except share and per share amounts

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Net sales	\$ 39,288	\$ 31,860	\$ 95,345
Cost of sales	44,522	34,085	97,193
Gross loss	(5,234)	(2,225)	(1,848)
Selling, general and administrative expenses	12,832	18,322	21,345
Research and development expense	1,160	2,670	4,371
Provision for bad debt expense	483	1,824	486
Goodwill impairment (Note 6)	—	—	82,524
Intangible asset impairment (Note 6)	—	—	135,480
Asset impairment (Note 6)	—	194	37,431
Operating loss	(19,709)	(25,235)	(283,485)
Interest income (expense), net	27	(30)	(196)
Amortization of deferred financing costs	—	(189)	(1,079)
Other income (Note 9)	3,634	—	7,202
(Loss) gain on disposal of fixed assets	(451)	185	—
Foreign currency transaction gain (loss)	298	(366)	(281)
Loss from continuing operations before income tax expense (benefit)	(16,201)	(25,635)	(277,839)
Income tax expense (benefit) from continuing operations	6,532	(7,349)	(66,264)
Net loss from continuing operations	(22,733)	(18,286)	(211,575)
Discontinued operations (Note 3):			
Income tax expense (benefit) from discontinued operations	884	—	(4,228)
Net (loss) earnings from discontinued operations	(884)	—	4,228
Net loss	<u>\$ (23,617)</u>	<u>\$ (18,286)</u>	<u>\$ (207,347)</u>
Other comprehensive (loss) income:			
Foreign currency translation (net of tax effect of \$0, \$244 and \$70, respectively)	(2,146)	531	130
Other comprehensive (loss) income	(2,146)	531	130
Comprehensive loss	<u>\$ (25,763)</u>	<u>\$ (17,755)</u>	<u>\$ (207,217)</u>
Net loss per share (Note 4):			
Basic from continuing operations	<u>\$ (2.08)</u>	<u>\$ (1.32)</u>	<u>\$ (15.37)</u>
Basic from discontinued operations	(0.08)	—	0.31
Basic	<u>\$ (2.16)</u>	<u>\$ (1.32)</u>	<u>\$ (15.06)</u>
Diluted from continuing operations	<u>\$ (2.08)</u>	<u>\$ (1.32)</u>	<u>\$ (15.37)</u>
Diluted from discontinued operations	(0.08)	—	0.31
Diluted	<u>\$ (2.16)</u>	<u>\$ (1.32)</u>	<u>\$ (15.06)</u>
Weighted-average shares outstanding (Note 4):			
Basic	<u>10,920,200</u>	<u>13,873,289</u>	<u>13,771,536</u>
Diluted	<u>10,920,200</u>	<u>13,873,289</u>	<u>13,771,536</u>

See accompanying notes to these consolidated financial statements.

STR Holdings, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

All amounts in thousands except share and per share amounts

	Common Stock Issued	Treasury Stock Acquired	Treasury Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings / (Accumulated Deficit)	Total Stockholders' Equity
Balance at January 1, 2012	13,730,490	1,240	\$(57)	\$229,787	\$(2,574)	\$ 103,212	\$ 330,505
Stock-based compensation	117,056	1	—	4,321	—	—	4,322
Employee stock purchase plan	3,514	—	—	46	—	—	46
Option exercise recognized tax shortfall	—	—	—	(217)	—	—	(217)
Net loss	—	—	—	—	—	(207,347)	(207,347)
Foreign currency translation	—	—	—	—	130	—	130
Balance at December 31, 2012	13,851,060	1,240	\$(57)	\$233,937	\$(2,444)	\$(104,135)	\$ 127,439
Stock-based compensation	68,815	1	—	2,156	—	—	2,157
Employee stock purchase plan	2,967	—	—	21	—	—	21
Net loss	—	—	—	—	—	(18,286)	(18,286)
Foreign currency translation	—	—	—	—	531	—	531
Balance at December 31, 2013	13,922,842	1,240	\$(57)	\$236,114	\$(1,913)	\$(122,421)	\$ 111,862
Stock-based compensation	135,512	2	—	2,425	—	—	2,427
Employee stock purchase plan	594	—	—	2	—	—	2
Tender offer, net	(5,203,986)	(52)	—	(26,377)	—	—	(26,429)
Common stock issuance to Zhenfa, net	9,210,710	92	—	18,112	—	—	18,204
Special dividend	—	—	—	—	—	(22,580)	(22,580)
Net loss	—	—	—	—	—	(23,617)	(23,617)
Foreign currency translation	—	—	—	—	(2,146)	—	(2,146)
Balance at December 31, 2014	18,065,672	1,240	\$(57)	\$230,276	\$(4,059)	\$(168,618)	\$ 57,723

See accompanying notes to these consolidated financial statements.

STR Holdings, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

All amounts in thousands

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
OPERATING ACTIVITIES			
Net loss	\$(23,617)	\$(18,286)	\$(207,347)
Net loss (earnings) from discontinued operations	884	—	(4,228)
Net loss from continuing operations	(22,733)	(18,286)	(211,575)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation	2,078	2,024	11,255
Goodwill impairment	—	—	82,524
Intangible asset impairment	—	—	135,480
Asset impairment	—	194	37,431
Amortization of intangibles	—	—	8,432
Amortization of deferred financing costs	—	46	235
Write-off of deferred debt costs on early extinguishment of debt	—	143	844
Stock-based compensation expense	2,380	1,902	3,494
Non-cash reversal of loss contingency	(4,089)	—	—
Non-cash reversal of restructuring accrual	(1,045)	—	—
Loss (gain) on disposal of property, plant and equipment	451	(185)	2
Non-cash change in income tax receivable	(7,166)	(5,455)	(6,951)
Provision for bad debt expense	483	1,824	486
Loss on reclassification on held for sale assets	1,179	—	—
Deferred income tax expense (benefit)	14,867	(1,849)	(60,194)
Changes in operating assets and liabilities:			
Accounts receivable	(8,188)	(1,252)	8,747
Cash received from income tax refunds	11,908	—	—
Inventories	(57)	112	20,244
Other current assets	(566)	40	4,103
Accounts payable	155	(321)	(1,773)
Accrued liabilities	(1,825)	(2,076)	(1,379)
Income taxes payable	(872)	(58)	2,715
Other, net	(1,398)	403	(238)
Net cash (used in) provided by continuing operations	(14,438)	(22,794)	33,882
Net cash (used in) provided by discontinued operations	(31)	834	(32)
Net cash (used in) provided by operating activities	(14,469)	(21,960)	33,850
INVESTING ACTIVITIES			
Capital investments	(3,115)	(2,238)	(10,677)
Proceeds from sale of fixed assets	6,805	186	—
Net cash provided by (used in) continuing operations	3,690	(2,052)	(10,677)
Net cash provided by discontinued operations	—	—	—
Net cash provided by (used in) investing activities	3,690	(2,052)	(10,677)
FINANCING ACTIVITIES			
Repurchase of common stock in tender offer	(24,042)	—	—
Tender offer costs	(2,387)	—	—
Special dividend	(22,580)	—	—
Common stock issuance to Zhenfa	21,662	—	—
Common stock issuance costs	(3,016)	—	—
Common stock issued under employee stock purchase plan	2	19	41
Other issuance costs	—	—	(43)
Net cash (used in) provided by continuing operations	(30,361)	19	(2)
Net cash used in discontinued operations	—	—	—
Net cash (used in) provided by financing activities	(30,361)	19	(2)
Effect of exchange rate changes on cash	(481)	181	20
Net (decrease) increase in cash and cash equivalents	(41,621)	(23,812)	23,191
Cash and cash equivalents, beginning of period	58,173	81,985	58,794
Cash and cash equivalents, end of period	\$ 16,552	\$ 58,173	\$ 81,985
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash (received) paid during the period for:			
Income taxes	\$(11,877)	\$ (650)	\$ 2,514

See accompanying notes to these consolidated financial statements.

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 1—BASIS OF PRESENTATION AND NATURE OF OPERATIONS

Basis of Presentation

These consolidated financial statements reflect the financial statements of STR Holdings, Inc. (“Holdings”) or (the “Company”) and its subsidiaries on a consolidated basis. Due to the divestiture of the Quality Assurance (“QA”) business as discussed below, the QA business’ historical operating results are recorded in discontinued operations in the Consolidated Statements of Comprehensive Loss and Consolidated Statements of Cash Flows for all applicable periods presented. See Note 3 below.

On January 30, 2015, the Company filed a Certificate of Amendment to its Restated Certificate of Incorporation in order to effect a one-for-three reverse split of its common stock and its common stock began trading on the New York Stock Exchange (“NYSE”) on a split-adjusted basis on the same date. No fractional shares were issued in connection with the reverse stock split. As a result of the reverse stock split, the number of issued and outstanding shares of its common stock was reduced to approximately 18,074,291 and 18,073,051, respectively, at December 31, 2014. The change in the number of shares resulting from the reverse stock split has been applied retroactively to all shares and per share amounts presented in the consolidated financial statements and accompanying notes.

The accompanying consolidated financial statements and the related information contained within the notes to the consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) for financial information and annual reports on the Form 10-K.

Certain prior periods’ disclosures have been reclassified to conform to the current period’s presentation.

Nature of Operations

The Company was incorporated in 1944 as a plastics and industrial materials research and development company and evolved into two core businesses: solar encapsulant manufacturing and quality assurance services. The Company currently designs, develops and manufactures encapsulants that protect the embedded semiconductor circuits of solar panels for sale to solar module manufacturers worldwide.

The Company launched its former QA business in 1973 and commenced sales of solar encapsulant products in the late 1970s. The Company’s strategic divestiture of the QA business is described below and in Note 3.

On September 1, 2011, the Company completed the sale of the QA business to Underwriters Laboratories, Inc. (“UL”). This strategic divestiture was executed to allow the Company to focus exclusively on the solar encapsulant opportunity and to seek further product offerings related to the solar industry, as well as other growth markets related to the Company’s polymer manufacturing capabilities, and to retire its long-term debt. The following transactions occurred as a result of the divestiture:

- The Company received \$275,000, plus assumed cash in proceeds. The sale generated an after-tax gain of approximately \$14,071 that included a tax liability of approximately \$105,934. In 2012,

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 1—BASIS OF PRESENTATION AND NATURE OF OPERATIONS (Continued)

the Company finalized the taxable gain and recorded an income tax benefit to discontinued operations of \$4,228. See Note 3.

- In order to sell the assets of QA free and clear of liens, the Company terminated its former first lien credit agreement and the second lien credit agreement by using \$237,732 of the sale proceeds to repay all amounts outstanding thereunder on September 1, 2011 to Credit Suisse AG as administrative and collateral agent.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company's significant accounting policies is as follows:

Basis of Accounting. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and account balances have been eliminated.

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. The Company's significant estimates include its revenue recognition, allowance for doubtful accounts receivable, inventory valuation, the recorded amounts and amortization periods of its intangible assets, valuation of goodwill and long-lived assets, product performance accrual, income taxes payable, deferred income taxes, its assessment of uncertain tax positions and its valuation of stock-based compensation costs. Actual results could differ materially from these estimates.

Fair Value Estimates. Accounting Standards Codification ("ASC") 820-10 Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 classifies the inputs used to measure fair value into the following hierarchy:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
- Level 3: Unobservable inputs for the asset or liability

The carrying values for cash, accounts receivable, income tax receivable, accounts payable, accrued liabilities, income tax payable and other current assets and liabilities approximate their fair values due to their short maturities. The carrying value of the Company's money market funds is based on the balance of its money market funds as of December 31, 2014, which is a Level 1 input. The carrying value of deferred compensation in 2014, which is a Level 2 input is based upon the effective valuation

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of the transaction with Zhenfa of \$4.80 per share. The carrying value of deferred compensation in 2013, which is a Level 2 input was based on the Company's common stock price as of December 31, 2013. See Note 11.

Foreign Currency Translation and Transactions. The Company's international operations use the local currency as their functional currency, except for its Malaysian subsidiary whose functional currency is the U.S. dollar. Assets and liabilities of international operations are translated at period-end rates of exchange; revenues and expenses are translated at average rates of exchange. The resulting translation gains or losses are reflected in accumulated other comprehensive loss. Gains or losses resulting from foreign currency transactions are included in net loss.

Cash and Cash Equivalents. All highly-liquid investments with a maturity of three months or less at the date of purchase are considered to be cash equivalents. The Company deposits its cash balances with a limited number of banks. Cash balances in these accounts generally exceed government insured limits.

Recognition of Revenue and Accounts Receivable. The Company recognizes revenue net of any sales returns and allowances when evidence of an arrangement exists, delivery of the product or service has occurred and title and risk of loss have passed to the customer, the sales price is fixed or determinable, and collectability of the resulting receivable is reasonably assured.

The Company recognizes revenue from the manufacture and sale of its encapsulants, which is the only contractual deliverable, either at the time of shipping or at the time the product is received at the customer's port or dock, depending upon terms of the sale. The Company does not offer a general right of return on its products.

In isolated occasions, the Company has offered limited short-term performance warranties relating to its encapsulants not causing module power loss. The Company performs long-term performance testing of its encapsulants during product development prior to launching new product introductions and in customer certification of its products prior to entering into mass production. The Company has operated its solar business since the 1970s and over 20 GW worth of solar modules utilizing its encapsulants have been installed in the field with no reported module power performance issues caused by its encapsulants and no related warranty claims to-date. Based on this fact pattern, the Company has not accrued any warranty liability associated for this potential liability as it is remote of occurrence. If the Company were to ever receive a warranty claim for such matter, it would assess the need for a warranty accrual at that time.

Allowance for Doubtful Accounts. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company reviews the collectability of its receivables on an ongoing basis and writes-off accounts receivable after reasonable collection efforts have been made and collection is deemed questionable or uncollectible.

Inventories. The Company's inventories are stated at the lower of cost or market. The Company's primary raw materials consist of resin, paper, packaging material and chemicals/additives. The Company's finished goods inventories are typically made-to-order and possess a shelf life of six to nine months from the date of manufacture. Cost is determined on a first-in, first-out basis and includes both

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the costs of acquisition and the costs of manufacturing. These costs include direct material, direct labor and fixed and variable indirect manufacturing costs, including depreciation expense.

The Company will write-down inventory to its net realizable value when it is probable that its inventory carrying cost is not fully recoverable through sale or other disposition. The Company's write-down considers overall market conditions, customer inventory levels, legal or contractual provisions and age of the inventories.

In 2014, the Company reserved \$955 of inventory, a majority of which is related to excess raw material and expired finished goods inventory related to recent product introductions.

In 2013, the Company reserved \$445 of inventory, a majority of which is related to raw material inventory procured and not delivered due to the loss of a customer.

In 2012, the Company incurred a write-down of approximately \$678 associated with excess paper raw material inventory due to changes in customer specifications and the Company being in the process of removing paper from its manufacturing process.

Long-Lived Assets. The Company's long-lived assets have consisted of goodwill, other intangible assets and property, plant and equipment.

Property, plant and equipment are recorded at cost and include expenditures for items that increase the useful lives of existing equipment. Maintenance and repairs are expensed as incurred. Property, plant and equipment accounts are relieved at cost, less related accumulated depreciation, when properties are disposed of or otherwise retired. Gains and losses from disposal of property, plant and equipment are included in net loss.

In accordance with ASC 360-Property, Plant, and Equipment, the Company reviews the carrying value of its long-lived assets, including property, plant and equipment, for impairment when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and the asset's fair value. Fair value is estimated based upon discounted future cash flows or other reasonable estimates of fair market value. The Company recognized an impairment loss of \$0, \$194 and \$37,431 in 2014, 2013 and 2012, respectively. See Note 6.

Goodwill represented the excess of the purchase price consideration over the estimated fair value assigned to the individual assets acquired and liabilities assumed from the DLJ Merchant Banking Partners IV, LP's acquisition of the Company in 2007 ("the Acquisition"). The Company did not amortize goodwill, but instead tested goodwill for impairment in accordance with the two-step method described in ASC 350-Intangibles, Goodwill and Other. The Company performed its annual impairment review of goodwill on October 1st and would also perform a review if at any time facts and circumstances warranted. During the first quarter of 2012, the Company recorded a non-cash goodwill impairment charge of \$82,524. Refer to Note 6.

The Company's intangible assets included its customer relationships, trademarks and proprietary technology and resulted from the Acquisition. The Company accounted for the Acquisition using the purchase method of accounting and recorded definite-lived intangible assets separately from goodwill. Intangible assets were recorded at their estimated fair value at the date of acquisition. During the

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

fourth quarter of 2012, the Company recorded a non-cash impairment charge of \$135,480. Refer to Note 6.

Asset Retirement Obligations. The Company accounts for asset retirement obligations in accordance with ASC 410-Asset Retirement and Environmental Obligations, which requires a company to recognize a liability for the fair value of obligations to retire tangible long-lived assets when there is a contractual obligation to incur such costs. The Company has recorded its asset retirement obligations relating to the cost of removing improvements from lease facilities at the end of the lease terms. The Company's conditional asset retirement obligations are not material.

Deferred Financing Costs. The Company capitalized debt issuance costs and amortized the costs to expense over the term of the related debt facility. In connection with entering into the Credit Agreement in 2011, the Company incurred \$1,306 of issuance costs. The Company amended its Credit Agreement in 2012 and incurred \$43 of additional issuance costs. In conjunction with entering into the amendment in 2012, the Company wrote-off \$844 of the remaining prior capitalized issuance costs based on the proportion of its new borrowing capacity compared to its prior availability. During 2013, the Company terminated the Credit Agreement since it was not able to draw on it without posting cash collateral, and the Company had liquidity with its then existing cash balance to run its operations. The Company had no outstanding indebtedness pursuant to the amended Credit Agreement. As a part of the termination, the Company wrote-off approximately \$143 of the remaining unamortized deferred financing costs associated with the Credit Agreement. Amortization of deferred financing costs were \$0, \$189 and \$1,079 for the years ended December 31, 2014, 2013 and 2012, respectively.

Leases. The Company leases certain facilities and equipment used in its operations. The Company accounts for its leases under the provisions of ASC 840-Leases, which requires that leases be evaluated and classified as operating or capital leases for financial reporting purposes. Operating lease expense is recorded on a straight-line basis over the lease term.

Income Taxes. The Company accounts for income taxes using the asset and liability method in accordance with ASC 740-Income Taxes. Under this method, the Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss and tax credit carryforwards. The Company estimates its deferred tax assets and liabilities using the enacted tax laws expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and will recognize the effect of a change in tax laws on deferred tax assets and liabilities in the results of its operations during the period that includes the enactment date. The Company records a valuation allowance to reduce its deferred tax assets if it determines that it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company operates in multiple taxing jurisdictions and is subject to the jurisdiction of a number of U.S. and non-U.S. tax authorities and to tax agreements and treaties among those authorities. Operations in these jurisdictions are taxed on various bases in accordance with jurisdictional regulations.

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more likely than not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the appropriate taxing authority has completed their examination even though the statute of limitations remains open or the statute of limitation expires. Interest and penalties related to uncertain tax positions are recognized as part of the Company's provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized. See Note 13.

Product Performance Accrual. The Company provides a short-term warranty that it has manufactured its products to the Company's specifications. On limited occasions, the Company incurs costs to service its products in connection with specific product performance matters that do not meet the Company's specifications. Anticipated future costs are recorded as part of cost of sales and accrued liabilities for specific product performance matters when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated.

In isolated occasions, the Company has offered limited short-term performance warranties relating to its encapsulants not causing module power loss. The Company performs long-term performance testing of its encapsulants during product development prior to launching new product introductions and in customer certification of its products prior to entering into mass production. The Company has operated its solar business since the 1970s and over 20 GW worth of solar modules utilizing its encapsulants have been installed in the field with no reported module power performance issues caused by its encapsulants and no related warranty claims to-date. Based on this fact pattern, the Company has not accrued any warranty liability associated for this potential liability as it is remote of occurrence. If the Company were to ever receive a warranty claim for such matter, it would assess the need for a warranty accrual at that time.

Cost of Sales. The Company includes the cost of inventory sold and related costs for the distribution of its product in cost of sales. These costs include raw materials and other components, direct labor, product performance matters, manufacturing overhead, salaries, and other personnel-related expenses, write-off of inventory, quality control, freight, insurance and depreciation. Shipping and handling costs are classified as a component of cost of sales. Customer payments for shipping and handling costs are recorded as a component of net sales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of salaries, travel, commissions and other personnel-related expenses for employees engaged in sales, marketing and support of the Company's products and services, trade shows and promotions. General and administrative expenses consist of expenses for the Company's finance, administrative, information technology, compliance and human resource functions.

Research and Development Expense. The Company's research and development expense consists primarily of salaries and fringe benefit costs and the cost of materials and outside services used in its pre-commercialization process and development efforts. The Company records depreciation expense for equipment that is used specifically for research and development activities.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation. In accordance with ASC 718-Compensation-Stock Compensation, the Company recognizes the grant date fair value of stock-based awards as compensation expense over the vesting period of the awards. See Note 15.

Loss Per Share. The Company computes basic loss per share in accordance with ASC 260-Earnings Per Share. Under the provisions of ASC 260, basic net loss per share is computed by dividing the net loss available to common stockholders by the weighted-average common shares outstanding during the period. Diluted net loss per common share adjusts basic net loss per common share for the effects of stock options and restricted stock awards only in periods in which such effect is dilutive. See Note 4.

Comprehensive Loss. Comprehensive loss consists of net loss and the effects on the consolidated financial statements of translating the financial statements of the Company's international subsidiaries. Comprehensive loss is presented in the consolidated statements of comprehensive loss. The Company's accumulated other comprehensive loss is presented as a component of equity in its consolidated balance sheets and consists of the cumulative amount of the Company's foreign currency translation adjustments, net of tax impact.

Recent Accounting Pronouncements:

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments contained in this update change the criteria for reporting discontinued operations and enhance the reporting requirements for discontinued operations. Under the revised standard, a discontinued operation must represent a strategic shift that has or will have a major effect on an entity's operations and financial results. Examples could include a disposal of a major line of business, a major geographical area, a major equity method investment or other major parts of an entity. The revised standard will also allow an entity to have certain continuing cash flows or involvement with the component after the disposal. Additionally, the standard requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. This ASU is effective for reporting periods beginning after December 15, 2014 with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issue. The Company is currently evaluating the new guidance to determine the impact it may have to its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606). This ASU is intended to clarify the principles for recognizing revenue by removing inconsistencies and weaknesses in revenue requirements; providing a more robust framework for addressing revenue issues; improving comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and providing more useful information to users of financial statements through improved revenue disclosure requirements. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2016. The Company is currently

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

evaluating the new guidance to determine the impact it may have to its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern”. This update provides guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financial statements are issued. This ASU is effective for the annual reporting period ending after December 15, 2016, and for interim and annual reporting periods thereafter, with early adoption permitted. The Company is currently evaluating the new guidance to determine the impact it may have to its consolidated financial statements.

In November 2014, the FASB issued ASU No. 2014-17 “Business Combinations” (Topic 805). This update is to provide guidance on whether and at what threshold an acquired entity that is a business or nonprofit activity can apply pushdown accounting in its separate financial statements. The amendments in this update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The amendments in this update are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The Company is currently evaluating the new guidance to determine the impact it may have to its consolidated financial statements.

NOTE 3—DISCONTINUED OPERATIONS

On August 16, 2011, the Company entered into an equity purchase agreement to sell its QA business to UL for \$275,000 plus assumed cash. The QA business provided consumer product testing, inspection, auditing and consulting services that enabled retailers and manufacturers to determine whether products and facilities met applicable safety, regulatory, quality, performance, social and ethical standards. In addition, the Company and UL entered into a transition services agreement, pursuant to which the Company agreed to provide certain services to UL following the closing of the sale, including accounting, tax, legal, payroll and employee benefit services. UL agreed to provide certain information technology services to the Company pursuant to such agreement. On September 1, 2011, the Company completed the sale of the QA business for total net cash proceeds of \$283,376, which included \$8,376 of estimated cash assumed in certain QA business locations. On September 1, 2011, pursuant to the terms and conditions of the equity purchase agreement, as amended, the Company transferred the applicable assets, liabilities, subsidiaries and employees of the QA business to Nutmeg Holdings, LLC (“Nutmeg”) and STR International, LLC (“International,” and together with Nutmeg and their respective subsidiaries, the “Nutmeg Companies”), and immediately thereafter sold its equity interest in each of the Nutmeg Companies to designated affiliates of UL. The Company decided to sell the QA business in order to focus exclusively on the solar encapsulant opportunity and to seek further product

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 3—DISCONTINUED OPERATIONS (Continued)

offerings related to the solar industry, as well as other growth markets related to the Company’s polymer manufacturing capabilities, and to retire its long-term debt.

In accordance with ASC 250-20-Presentation of Financial Statements—Discontinued Operations and ASC 740-20-Income Taxes-Intraperiod Tax Allocation, the accompanying Consolidated Statements of Comprehensive Loss and Consolidated Cash Flows present the results of the QA business as discontinued operations. Prior to the sale, the QA business was a segment of the Company. The Company has no continuing involvement in the operations of the QA business and does not have any direct cash flows from the QA business subsequent to the sale. Accordingly, the Company has presented the QA business as discontinued operations in these consolidated financial statements.

During the third quarter of 2014, the Company received proposed audit adjustments for the tax years 2009, 2010 and 2011 related to state filings of the Company’s former QA business. As a result, the Company recorded an aggregate income tax expense to discontinued operations of \$884.

Out of Period Adjustment

During the third quarter of 2012, the taxable gain associated with the sale of the Company’s QA business was finalized in conjunction with filing of the Company’s 2011 income tax returns. As part of this process, the Company identified and recorded an income tax benefit to discontinued operations of \$4,228. The Company determined that \$1,629 of this benefit was an error that should have been recorded in 2011. The Company has determined that the error was not quantitatively or qualitatively material to the annual or interim periods in 2012 and 2011.

The following table sets forth the operating results of the QA business as being presented as a discontinued operation for the years ended December 31, 2014, 2013 and 2012, respectively:

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Net sales	<u>\$ —</u>	<u>\$—</u>	<u>\$ —</u>
Loss from operations before income tax expense	—	—	—
Gain on sale before income tax expense	<u>—</u>	<u>—</u>	<u>—</u>
Net earnings before income tax expense	<u>\$ —</u>	<u>\$—</u>	<u>\$ —</u>
Income tax expense (benefit)	<u>\$884</u>	<u>\$—</u>	<u>\$(4,228)</u>

NOTE 4—EARNINGS PER SHARE

On January 30, 2015, the Company filed a Certificate of Amendment to its Restated Certificate of Incorporation in order to effect a one-for-three reverse split of its common stock and its common stock began trading on the NYSE on a split-adjusted basis on the same date. No fractional shares were issued in connection with the reverse stock split. The change in the number of shares resulting from the reverse stock split has been applied retroactively to all shares and per share amounts presented in the consolidated financial statements and accompanying notes, unless otherwise noted. As a result of the

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 4—EARNINGS PER SHARE (Continued)

reverse stock split, the number of issued and outstanding shares of its common stock was reduced to approximately 18,074,291 and 18,073,051, respectively, at December 31, 2014. The calculation of basic and diluted (loss) earnings per share for the periods presented is as follows:

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Basic and diluted net (loss) earnings per share			
Numerator:			
Net loss from continuing operations	\$ (22,733)	\$ (18,286)	\$ (211,575)
Net (loss) earnings from discontinued operations	(884)	—	4,228
Net loss	\$ (23,617)	\$ (18,286)	\$ (207,347)
Denominator:			
Weighted-average shares outstanding	10,920,200	13,873,289	13,771,536
Add:			
Dilutive effect of stock options	—	—	—
Dilutive effect of restricted common stock	—	—	—
Weighted-average shares outstanding with dilution	10,920,200	13,873,289	13,771,536
Net (loss) earnings per share:			
Basic from continuing operations	\$ (2.08)	\$ (1.32)	\$ (15.37)
Basic from discontinued operations	(0.08)	—	0.31
Basic	\$ (2.16)	\$ (1.32)	\$ (15.06)
Diluted from continuing operations	\$ (2.08)	\$ (1.32)	\$ (15.37)
Diluted from discontinued operations	(0.08)	—	0.31
Diluted	\$ (2.16)	\$ (1.32)	\$ (15.06)

As of December 31, 2014, the Company had 18,073,051 shares outstanding. On March 7, 2014, the Company repurchased 5,203,986 shares of its common shares at \$4.62 per share in connection with a modified “Dutch Auction” tender offer. As such, the weighted-average shares for 2014 does not reflect the full impact of the shares repurchased since the transaction occurred in the last month of the first quarter.

On August 11, 2014, the Company entered into a Stock Purchase Agreement (the “Purchase Agreement”) with the Purchaser, pursuant to which the Company agreed to issue and sell to the Purchaser, and the Purchaser agreed to purchase from the Company, an aggregate of approximately 9,210,710 shares (the “Purchased Shares”) of its authorized but unissued common stock, par value \$0.01 per share (the “Common Stock”), to the Purchaser for an aggregate purchase price (“Purchased Price”) of approximately \$21,664, or \$2.35 per share (the “Transaction”). The Purchased Shares represented approximately 51% of the Company’s outstanding shares upon the closing of the Transaction (the “Closing”), which occurred on December 15, 2015. As such, the weighted-average shares for 2014 does not reflect the full impact of the shares issued since the Transaction occurred in the last month of 2014.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 4—EARNINGS PER SHARE (Continued)

Due to the loss from continuing operations during the years ending December 31, 2014, 2013 and 2012, the weighted-average common shares outstanding does not include any stock options and any shares of unvested restricted common stock as these potential awards do not share in any loss generated by the Company and are anti-dilutive.

Because the effect would be anti-dilutive, there were 4, 36 and 54 shares of common stock issuable upon the exercise of options issued under the STR Holdings, Inc. 2010 Employee Stock Purchase Plan (“ESPP”) that were not included in the computation of diluted weighted-average shares outstanding for the years ending December 31, 2014, 2013 and 2012, respectively.

Because the effect would be anti-dilutive, there were 0, 3,771,305 and 2,744,910 stock options outstanding that were not included in the computation of diluted weighted-average shares outstanding for the years ended December 31, 2014, 2013, 2012, respectively.

NOTE 5—INVENTORIES, NET

Inventories consist of the following:

	December 31, 2014	December 31, 2013
Finished goods	\$1,806	\$2,938
Raw materials	7,397	6,064
Reserve	(955)	(445)
Inventories, net	\$8,248	\$8,557

NOTE 6—LONG-LIVED ASSETS AND GOODWILL

Property, Plant and Equipment

Property, plant and equipment consist of the following:

	Estimated Useful Lives	December 31, 2014	December 31, 2013
Land		\$ 3,571	\$ 5,917
Buildings and improvements	15 - 40	12,412	15,844
Machinery and equipment	5 - 8	19,615	19,251
Furniture, fixtures and computers	3 - 5	3,493	4,090
Less: accumulated depreciation		(19,552)	(20,315)
Subtotal		19,539	24,787
Construction-in-progress		656	3,611
Property, plant and equipment, net		\$ 20,195	\$ 28,398

Depreciation expense was \$2,078, \$2,024 and \$11,255 for the years ended December 31, 2014, 2013 and 2012, respectively.

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 6—LONG-LIVED ASSETS AND GOODWILL (Continued)

On June 9, 2014, the Company received a signed letter of intent from a potential buyer for its East Windsor, Connecticut facility for approximately \$4,750. In July, the Company executed the formal purchase and sale agreement and in October the sale of the property was finalized. The sale of the property was part of the Company's focus to reduce its footprint and operating costs. As such, an analysis of the asset group was performed and a loss on reclassification of \$1,179 was recorded during 2014. The Company has relocated its corporate and research and development functions to its owned facility located in Enfield, Connecticut.

In 2014, the Company sold its land use rights for a parcel of land located in Suzhou, China to the Administration Committee of Changkun Industrial Government for \$1,924. The Company recorded a loss on disposal of fixed assets for the sale of this asset of \$435.

In 2013, the Company recorded a \$194 impairment to its property, plant and equipment. The impairment was driven by the Company's decision to cease the construction of its China manufacturing plant due to electing to lease an existing building to conduct its manufacturing operations. As such, the Company wrote-off costs incurred to date relating to the construction of its own facility.

Due to continued and expected low production utilization levels, the Company recorded \$2,818 of accelerated depreciation associated with shortened useful lives of certain machinery and equipment during the fourth quarter of 2012. In addition, the Company recorded an impairment charge of \$37,431 to its property, plant and equipment as of December 31, 2012.

Intangible Assets

The Company recorded the estimated fair values of intangible assets acquired in connection with the Acquisition. As described in the impairment testing section below, the Company impaired its Intangible assets as of December 31, 2012 as follows:

	December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Impairment as of December 31, 2012	Net
Customer relationships	\$ 71,100	\$19,701	\$ 51,399	\$—
Trademarks	40,800	7,537	33,263	—
Proprietary technology	70,300	19,482	50,818	—
	\$182,200	\$46,720	\$135,480	\$—

The Company amortized its intangible assets utilizing the straight-line method as this method approximated the anticipated economic benefit derived from these assets. Amortization expense of such assets was \$0, \$0 and \$8,432 for the years ended December 31, 2014, 2013 and 2012, respectively. The Company recorded a non-cash impairment charge of \$135,480 as of December 31, 2012.

Goodwill

Goodwill represented the excess purchase price consideration of the estimated fair value assigned to the individual assets acquired and liabilities assumed in the Acquisition. The Company recorded an

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 6—LONG-LIVED ASSETS AND GOODWILL (Continued)

impairment of \$0, \$0 and \$82,524 during 2014, 2013 and 2012, respectively, as further discussed below. Goodwill was \$0 at December 31, 2014 and 2013. Goodwill was not deductible for tax purposes.

Impairment Testing

In accordance with ASC 350-Intangibles-Goodwill and Other and ASC 360-Property, Plant and Equipment, the Company assessed the impairment of its long-lived assets including its definite-lived intangible assets, property, plant and equipment and goodwill, at least annually for goodwill, and whenever changes in events or circumstances indicated that the carrying value of such assets may not be recoverable. During each reporting period, the Company assessed if the following factors were present which would cause an impairment review: overall negative solar industry conditions; a significant or prolonged decrease in net sales that were generated under its trademarks; loss of a significant customer or a reduction in demand for customers' products; a significant adverse change in the extent to or manner in which the Company used its trademarks or proprietary technology; such assets becoming obsolete due to new technology or manufacturing processes entering the markets or an adverse change in legal factors; and the market capitalization of the Company's common stock.

During the first quarter of 2012, the market capitalization of the Company's common stock declined by approximately 50%. As a result of this decline that did not appear to be temporary, the Company determined that a triggering event occurred requiring it to test its long-lived assets and its goodwill for impairment as of March 31, 2012. Prior to performing its goodwill impairment test, the Company first assessed its long-lived assets for impairment as of March 31, 2012. The Company concluded that no impairment existed as the sum of the undiscounted expected future cash flows exceeded the carrying value of the Company's asset group which is its reporting unit. The key assumptions driving the undiscounted cash flows were the forecasted sales growth rate and EBITDA margin.

At March 31, 2012, the Company valued its reporting unit with the assistance of a valuation specialist and determined that its reporting unit's net book value exceeded its fair value. The Company then performed step two of the goodwill impairment assessment which involved calculating the implied fair value of goodwill by allocating the fair value of the reporting unit to all of its assets and liabilities other than goodwill and comparing the residual amount to the carrying amount of goodwill. The Company determined that the implied fair value of goodwill was lower than its carrying value and recorded a non-cash goodwill impairment charge of \$82,524. The Company estimated the fair value of its reporting unit under the income approach using a discounted cash flow method which incorporated the Company's cash flow projections.

Based on the other-than-temporary decline in the Company's stock price and its net book value exceeding the market capitalization of its common stock during the first quarter of 2012, the market approach was giving a higher weighting in determining fair value. The Company believes the cash flow projections and valuation assumptions used were reasonable and consistent with market participants. Many of the factors used in assessing the fair value were outside the control of management, and these assumptions and estimates could have changed in future periods as a result of both Company-specific factors, industry conditions and overall economic conditions.

As of December 31, 2012, due to continued pricing pressure, trade complaints escalating in the industry, increased competition from non-EVA encapsulant materials and the Company's initial 2013

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 6—LONG-LIVED ASSETS AND GOODWILL (Continued)

sales outlook which included the loss of its then largest customer, the Company determined that a trigger event occurred to test its long-lived assets for recoverability. In conjunction with a valuation specialist, the Company determined that the sum of the undiscounted expected future cash flows did not exceed the carrying value of the Company's asset group which is its reporting unit. The key assumptions driving the undiscounted cash flows were the forecasted sales growth rate and EBITDA margin.

Since the asset group's carrying value was not recoverable, the Company, in conjunction with a valuation specialist, fair valued the asset group incorporating market participant assumptions. The Company estimated the fair value of its asset group under the income approach using a discounted cash flow model which incorporated its cash flow projections. The Company also considered its market capitalization, control premiums and other valuation assumptions in reconciling the calculated fair value to the market capitalization at the assessment date. Based on the assessment, the Company calculated an impairment charge which was allocated to each of the long-lived assets on a pro-rata basis using the relative carrying values of those assets as of December 31, 2012. However, the Company did not reduce the carrying value of such assets below their fair value where such value could be determined without undue cost and effort. Therefore, the Company recorded a non-cash impairment charge of \$135,480 to its intangible assets and \$37,431 to its property, plant and equipment as of December 31, 2012. The Company re-evaluated the depreciable lives of such long-lived assets and determined a revision to those lives was not warranted.

At December 31, 2013, there were no indicators that significantly changed from the December 31, 2012 impairment test and a detailed impairment analysis was not performed. However, the Company did perform an analysis using appraisals and other data in order to assess the recoverability of its property, plant and equipment as of December 31, 2013. As a result of this analysis, the Company determined its long-lived assets were recoverable and the depreciable lives were appropriate as of December 31, 2013.

At December 31, 2014, the Company recorded valuation allowances against its deferred tax assets. As such, the Company determined this to be an indicator to test its long-lived assets for impairment. The valuation allowances were recorded since the Company has three consecutive years of taxable losses and it determined that its history of actual net losses is negative evidence that should be given more weight than future projections. As such, the Company determined the recording of valuation allowances to be an indicator to test its long-lived assets, which consist solely of property, plant and equipment, for impairment. The Company concluded that no impairment existed as the sum of the undiscounted expected future cash flows exceeded the carrying value of its asset group which is its reporting unit (\$57,723 as of December 31, 2014) by \$54,854. The key assumptions driving the undiscounted cash flows were the forecasted sales growth rate and EBITDA margin. In addition to assessing the undiscounted cash flows, the Company also assessed the specific recoverability of its property, plant and equipment using updated real estate appraisals and other data for its other fixed assets, mainly production equipment. Based upon this analysis, the Company believes its property, plant and equipment's carrying value is recoverable and depreciable lives are appropriate as of December 31, 2014. If the Company experiences a significant reduction in future sales volume, further ASP reductions, lower profitability, ceases operations at any of its facilities, or negative changes in Malaysia, U.S. or Spain real estate markets, the Company's property, plant and equipment may be subject to future impairment or accelerated depreciation.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 7—LEASES

The Company leases facility space under non-cancelable operating leases. The leases require the Company to pay property taxes, common area maintenance and certain other costs in addition to base rent. The Company also leases office equipment under operating leases.

Future minimum payments under all non-cancelable operating leases were as follows as of December 31, 2014:

2015	\$168
2016	166
2017	166
2018	71
2019	1
Thereafter	<u>—</u>
	<u>\$572</u>

Rental expense on facility space and equipment operating leases was \$392, \$450 and \$474 for the years ended December 31, 2014, 2013 and 2012, respectively.

NOTE 8—ACCRUED LIABILITIES

Accruals consist of the following:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Product performance (see Note 9)	\$ 189	\$4,141
Grants (see Note 9)	—	1,071
Salary and wages	381	412
Professional fees	704	563
Restructuring severance and benefits (see Note 10)	32	1,667
Environmental (see Note 9)	57	76
Accrued franchise tax	565	191
Other	852	311
Total	<u>\$2,780</u>	<u>\$8,432</u>

NOTE 9—COMMITMENTS AND CONTINGENCIES

The Company is a party to claims and litigation in the normal course of its operations. Management believes that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

Product Performance Matters

The Company provides a short-term warranty that it has manufactured its products to the Company's specifications. On limited occasions, the Company incurs costs to service its products in connection with specific product performance matters that do not meet the Company's specifications. Anticipated future costs are recorded as part of cost of sales and accrued liabilities for specific product

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 9—COMMITMENTS AND CONTINGENCIES (Continued)

performance matters when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated.

In isolated occasions, the Company has also offered limited short-term performance warranties relating to its encapsulants not causing module power loss. The Company performs long-term performance testing of its encapsulants during product development prior to launching new product introductions and in customer certification of its products prior to entering into mass production. The Company has operated its solar business since the 1970s and over 20 GW worth of solar modules utilizing its encapsulants have been installed in the field with no reported module power performance issues caused by the Company’s encapsulants and no related warranty claims to-date. Based on this fact pattern, the Company has not accrued any warranty liability associated for this potential liability as it is remote of occurrence. If the Company was to ever receive a warranty claim for such matter, the Company would assess the need for a warranty accrual at that time.

The Company has accrued for specific product performance matters incurred in 2014 and 2013 that are based on management’s best estimate of ultimate expenditures that it may incur for such items. The following table summarizes the Company’s product performance liability that is recorded in accrued liabilities in the consolidated balance sheets:

	December 31, 2014	December 31, 2013
Balance as of beginning of period	\$ 4,141	\$3,959
Additions	528	17
Reversals	(4,089)	—
Reductions	(355)	—
Foreign exchange impact	(36)	165
Balance as of end of period	\$ 189	\$4,141

During 2014, the Company reversed \$4,089 of an accrual related to a quality claim by one of the Company’s customers in connection with a non-encapsulant product that the Company purchased from a vendor in 2005 and 2006 and resold. The reversal was recorded in other income in the consolidated statements of comprehensive loss for the year ended December 31, 2014. The Company stopped selling this product in 2006. The Company has concluded that the settlement of this contingency is no longer probable and is remote.

Environmental

During 2010, the Company performed a Phase II environmental site assessment at its 10 Water Street, Enfield, Connecticut location. During its investigation, the site was found to contain a presence of volatile organic compounds. The Company has been in contact with the Department of Environmental Protection and has engaged a licensed contractor to remediate this circumstance. Based on ASC 450-Contingencies, the Company has accrued the estimated cost to remediate. The following

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 9—COMMITMENTS AND CONTINGENCIES (Continued)

table summarizes the Company’s environmental liability that is recorded in accrued liabilities in the consolidated balance sheets:

	December 31, 2014	December 31, 2013
Balance as of beginning of period	\$ 76	\$105
Additions	—	—
Reductions	(19)	(29)
Balance as of end of period	\$ 57	\$ 76

Spanish Grants

The Company’s Spanish subsidiary has received financial grants for certain fixed assets that requires the Company’s Spanish subsidiary to maintain a specific level of employment and to continue to operate certain fixed assets. In the third quarter of 2013, the Company’s Spanish subsidiary repaid \$1,558 of grants that were accrued in 2012 in conjunction with cost reduction measures that failed to comply with employment level requirements for certain grants. During the fourth quarter of 2014, \$974 of grants were reversed to other income and SG&A, as the Company met all of the grant requirements. If the Company’s Spanish subsidiary fails to satisfy these or other requirements, such subsidiary will not qualify for future incentives and may be required to refund a portion of previously granted incentives. If the Company’s Spanish subsidiary fails to comply with its obligations under the grants, or the respective government agencies determine that the Company’s Spanish subsidiary has not complied with all of its grants, the Company could be required to make additional potential repayments ranging from zero to \$4,000. Any such additional potential repayment could have a material adverse effect on the Company’s results of operations, prospects, cash flows and financial condition.

Galica/JPS

In October 2007, the Company’s wholly-owned subsidiary, Specialized Technology Resources, Inc. (“STR”), filed a complaint against James P. Galica (“Galica”) and JPS Elastomerics Corp. (“JPS”) in the Massachusetts Superior Court in Hampshire County (the “Court”). STR alleged that the defendants misappropriated trade secrets and violated the Massachusetts Unfair and Deceptive Trade Practices Act as well as breaches of contract, the implied covenant of good faith and fair dealing, and fiduciary duty against Galica (the “State Court Action”). The Court determined that JPS and Galica had violated the Massachusetts Unfair and Deceptive Trade Practices Act, finding that the technology for STR’s polymeric sheeting product is a trade secret and that JPS and Galica had misappropriated STR’s trade secrets. On January 27, 2011, the Court awarded STR the right to recover from the defendants (i) actual monetary damages of \$1,100, (ii) punitive damages of \$2,200, (iii) reasonable attorney’s fees of \$3,900, (iv) reasonable costs of \$1,100, and (v) 12% interest on each of the monetary awards from the date of the judgment (except for the actual monetary damages which accrued interest from October 2, 2007, the date the complaint was entered). In addition, the Court imposed a five year production injunction (the “Production Injunction”) against producing low shrink EVA encapsulant, and a permanent use injunction against the defendants using STR’s trade secrets.

On September 17, 2010, JPS filed an amended complaint against STR, in the U.S. District Court for the District of Massachusetts (the “Federal Court Action”). The amended complaint alleged various

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 9—COMMITMENTS AND CONTINGENCIES (Continued)

antitrust and unfair competition claims and that the State Court Action (described above) was sham litigation initiated by STR in an attempt to monopolize the domestic and international market for low-shrink EVA encapsulants. JPS also alleged other schemes to monopolize and unfair competition in violation of federal and state laws. JPS sought \$60,000 in compensatory damages, treble damages, a permanent injunction against STR for various activities, reimbursement of legal fees for the State Court Action as well as for this matter, and disgorgement of proceeds obtained by STR from allegedly anti-competitive and tortious acts. On October 13, 2010, STR filed a motion to dismiss the amended complaint, and on January 5, 2011, the Court held a hearing on STR's motion to dismiss. At the hearing, the Court ruled in favor of STR and dismissed the case. On February 10, 2011, JPS filed a notice of appeal with the Appellate Court. JPS filed its appellate brief on May 2, 2011 and STR filed its appellate brief on June 14, 2011.

On February 10, 2012, the Company, STR, JPS, JPS Industries, Inc., the parent corporation of JPS, and Galica entered into a Global Settlement Agreement and Release (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the parties agreed to, (i) payment by JPS of \$7,132 to the Company (which was received on February 16, 2012), (ii) dismissals of the State Court Action, the Federal Court Action, and all associated appeals and proceedings, (iii) the satisfaction of outstanding judgments in the State Court Action, (iv) the disbursement to the Company of \$70, deposited with and held in escrow by the Court, (v) the discharge of attachments of certain assets of JPS, (vi) the modification of the injunction issued in the State Court Action: (a) reducing the term of the Production Injunction from five years to four years, (b) permitting JPS to permanently bond encapsulant to fiberglass mesh and laminate non-low shrink encapsulant to paper, (c) the deletion of JPS's obligations with respect to the review and deletion of certain documents, (vii) the delivery to the Company by JPS of certain components of an equipment line purchased by it, (viii) the deletion by JPS of certain data, (ix) the general release of claims by the parties related to the State Court Action and the Federal Court Action, subject to the retention by the Company of certain rights, (x) the covenant by JPS not to sue the Company (and its affiliates) with respect to matters related to the Federal Court Action, (xi) the agreement by JPS and Galica to cooperate with the Company in connection with investigations related to the potential dissemination of the Company's trade secrets, and (xii) certain other customary terms and conditions.

The Company received the \$7,202 payment during the first quarter of 2012, which is recorded in Other Income in its Consolidated Statements of Comprehensive Loss for the year ended December 31, 2012.

NOTE 10—COST REDUCTION ACTIONS

During 2012, the Company entered into a Labor Force Adjustment Plan ("LFAP") with the union and the local government at its Spain facility that temporarily furloughed approximately 60 employees for the period of February 1, 2012 to July 31, 2012. The Company entered into an agreement to extend its LFAP at its Spain facility. Under this agreement, the Company was responsible for 10% of the salary of employees who were furloughed during the period from August 1, 2012 through October 31, 2012. On October 17, 2012, the Company permanently reduced headcount at this facility by 58 employees to better align its cost structure with current and anticipated sales volumes. In addition, the Company also reduced headcount by 39 employees at its Connecticut facilities in 2012. In conjunction

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 10—COST REDUCTION ACTIONS (Continued)

with these headcount reductions, the Company recognized severance of \$998 in cost of sales and \$440 in selling, general and administrative expense for the year ended December 31, 2012, respectively.

On January 22, 2013, the Board of Directors approved a cost reduction action to cease manufacturing at its East Windsor, Connecticut facility after being notified that its largest customer selected an alternative supplier. In connection with ongoing cost reduction measures by the Company, on October 15, 2013, the Company eliminated the positions of Chief Operating Officer, Vice President of Human Resources, Chief Technology Officer and Vice President of Finance effective November 15, 2013. These cost reduction actions were implemented to better align the Company’s organization and cost-structure to its current and expected level of business. In total, the Company executed headcount reductions of approximately 180 employees on a global basis for the year ended December 31, 2013. In conjunction with these headcount reductions, the Company recognized severance and related benefits of \$1,698 in cost of sales and \$2,633 in selling, general and administrative expense for the year ended December 31, 2013.

In light of the continued shift in module manufacturing to mainland China, and the requirement within this growing market for just-in-time delivery, the Company announced plans in 2013 to cease production at its Johor, Malaysia facility in 2014. In conjunction with the anticipated closure, the Company recognized severance and other benefits of \$386 in cost of sales and \$377 in selling, general and administrative expenses in 2013. During 2014, the Company reassessed the strategic benefit of its Malaysia facility. Due to continued solar trade disputes between China and the United States and Europe, including the levy of tariffs and anti-dumping duties, solar module production is expected to increase in Asia outside of China. As such, the Company believes its Malaysia facility is strategically located in this region, and it will remain open indefinitely. As such, the Company reversed restructuring accruals recorded in 2013 during 2014 resulting in a positive benefit to cost of sales of \$407 and selling, general and administrative expense of \$388.

During 2014, the Company received notification that it fulfilled the necessary Spanish grant requirements provided by the government and in turn reversed \$250 of an accrual initially recorded in 2012.

The activity during the year ended December 31, 2014 related to cash settlements of previous accrued amounts, minor adjustments for cost reduction actions initiated in 2013 and the non-cash reversal of prior accruals relating to the Malaysia facility that will now remain open and the Spanish grants.

The restructuring accrual consists of \$32 for severance and benefits as of December 31, 2014. A rollforward of the severance and other exit cost accrual activity was as follows:

Balance at December 31, 2012	\$ 200
Additions	4,331
Reductions	(2,597)
Balance at December 31, 2013	\$ 1,934
Additions	\$ 440
Reversals	(1,045)
Reductions	(1,297)
Balance at December 31, 2014	\$ 32

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 11—FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis in the financial statements. The hierarchy ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

- Level 1—quoted prices in active markets for identical assets and liabilities;
- Level 2—unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and
- Level 3—unobservable inputs that are not corroborated by market data.

The following table provides the fair value measurements of applicable financial assets and liabilities as of December 31, 2014:

	Financial assets and liabilities at fair value as of December 31, 2014		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds(1)	\$1,441	\$ —	\$—
Deferred compensation(2)	\$ —	\$(204)	\$—
Total	<u>\$1,441</u>	<u>\$(204)</u>	<u>\$—</u>

The following table provides the fair value measurements of applicable financial assets and liabilities as of December 31, 2013:

	Financial assets and liabilities at fair value as of December 31, 2013		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds(1)	\$29,458	\$ —	\$—
Deferred compensation(2)	\$ —	\$(830)	\$—
Total	<u>\$29,458</u>	<u>\$(830)</u>	<u>\$—</u>

(1) Included in cash and cash equivalents on the Company’s Consolidated Balance Sheets. The carrying amount of money market funds is a reasonable estimate of fair value.

(2) Included in other short-term and other long-term liabilities on the Company’s Consolidated Balance Sheets. Refer to Note 15 for further information.

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 12—LONG-TERM DEBT

The Company had no outstanding long-term debt as of December 31, 2014 and 2013.

2011 Credit Agreement

On October 7, 2011, the Company entered into a multicurrency credit agreement (the “Credit Agreement”) with certain of its domestic subsidiaries, as guarantors (the “Guarantors”), the lenders from time to time party thereto (“the Lenders”) and Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer (“the Administrative Agent”). The Credit Agreement originally provided for a revolving senior credit facility of up to \$150,000 which was to mature on October 7, 2015. The Credit Agreement originally included a \$50,000 sublimit for multicurrency borrowings, a \$25,000 sublimit for the issuance of letters of credit and a \$5,000 sublimit for swing line loans. The Credit Agreement also contained an expansion option permitting the Company to request an increase of the revolving senior credit facility from time to time up to an aggregate additional \$50,000 from any of the lenders or other eligible lenders as may have been invited to join the Credit Agreement, that elected to make such increase available, upon the satisfaction of certain conditions.

The obligations under the Credit Agreement were unconditional and were guaranteed by substantially all of the Company’s existing and subsequently acquired or organized domestic subsidiaries. The Credit Agreement and related guarantees were secured on a first-priority basis, and by security interests (subject to liens permitted under the Credit Agreement) in substantially all tangible and intangible assets owned by the Company and each of the Company’s domestic subsidiaries, subject to certain exceptions, including limiting pledges to 66% of the voting stock of foreign subsidiaries.

Borrowings under the Credit Agreement may have been used to finance working capital, capital investments and other lawful corporate purposes, including the financing of certain permitted acquisitions, payment of dividends and/or stock repurchases, subject to certain restrictions.

Each Eurocurrency rate loan bore interest at the Eurocurrency rate (as was defined in the Credit Agreement) plus an applicable rate that ranged from 200 basis points to 250 basis points based on our Consolidated Leverage Ratio (as was defined in the Credit Agreement) plus, when funds were lent by certain overseas lending offices, an additional cost.

Base rate loans and swing line loans bore interest at the base rate (as defined below) plus the applicable rate, which ranged from 100 basis points to 150 basis points based on the Company’s Consolidated Leverage Ratio. The base rate was the highest of (i) the Federal funds rate (as published by the Federal Reserve Bank of New York from time to time) plus ½ of 1%, (ii) Bank of America’s “prime rate” as publicly announced from time to time, and (iii) the Eurocurrency rate for Eurocurrency loans of one month plus 1%.

If any amount was not paid when due under the Credit Agreement or an event of default existed, then, at the request of the lenders holding a majority of the unfunded commitments and outstanding loans, obligations under the Credit Agreement would have bore interest at a rate per annum equal to 200 basis points higher than the interest rate otherwise applicable. In addition, the Company was required to pay the Lenders a commitment fee equal to an applicable rate, which ranged from 25 basis points to 35 basis points based on the Company’s Consolidated Leverage Ratio from time to time, multiplied by the actual daily amount of the Lender’s aggregate unused commitments under the Credit

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 12—LONG-TERM DEBT (Continued)

Agreement. The facility fee was payable quarterly in arrears. The Company would also pay a letter of credit fee equal to the applicable rate for Eurocurrency rate loans times the dollar equivalent of the daily amount available to be drawn under such letter of credit.

The Company could optionally prepay the loans or irrevocably reduce or terminate the unutilized portion of the commitments under the Credit Agreement, in whole or in part, without premium or penalty (other than if Eurocurrency loans were prepaid prior to the end of the applicable interest period) at any time by the delivery of a notice to that effect as provided under the Credit Agreement.

2012 Amendment to the Credit Agreement

On September 28, 2012 (the “Effective Date”), the Company, the Guarantors, the Lenders and the Administrative Agent entered into the First Amendment to Credit Agreement and Security Agreement (the “First Amendment”), amending (i) the Credit Agreement and (ii) the Security Agreement and dated as of October 7, 2011, among the Company, the Guarantors and the Administrative Agent. The Company had no outstanding indebtedness pursuant to the Credit Agreement.

The First Amendment reduced the amount available under the revolving senior credit facility from \$150,000 to \$25,000. During the cash collateral period, the Company may have borrowed under the revolving senior credit facility. However, the Company must have maintained cash collateral deposited by the Company and/or the Company’s subsidiaries in an account controlled by the Administrative Agent in an amount equal to any outstanding borrowing under the Credit Agreement, as amended. In addition, the Company was not required to comply with the financial covenants set forth in the Credit Agreement, as amended, during the cash collateral period.

Termination of the Credit Agreement

On September 16, 2013, the Company terminated its Credit Agreement. The Company had no outstanding indebtedness pursuant to the amended Credit Agreement. The Company cancelled the Credit Agreement since it was not able to draw on it without posting cash collateral and the Company had liquidity with its then existing cash balance to run its operations. As a part of the termination, the Company wrote-off approximately \$143 of the remaining unamortized deferred financing costs associated with the Credit Agreement.

NOTE 13—INCOME TAXES

Loss from continuing operations before income tax expense (benefit) is as follows:

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Domestic	\$ (6,341)	\$(14,611)	\$(262,451)
Foreign	(9,860)	(11,024)	(15,388)
Total	<u>\$ (16,201)</u>	<u>\$(25,635)</u>	<u>\$(277,839)</u>

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 13—INCOME TAXES (Continued)

The expense (benefit) for income taxes from continuing operations consists of the following components:

	<u>Year Ended</u> <u>December 31, 2014</u>	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
Current income tax (benefit) expense from continuing operations			
U.S. federal	\$(8,377)	\$(5,610)	\$ (8,825)
Foreign	12	122	3,405
State and local	<u>30</u>	<u>(12)</u>	<u>(650)</u>
Total current income tax (benefit) expense from continuing operations	(8,335)	(5,500)	(6,070)
Deferred income tax expense (benefit) from continuing operations			
U.S. federal	12,300	(741)	(58,015)
Foreign	2,567	(1,134)	(1,722)
State and local	<u>—</u>	<u>26</u>	<u>(457)</u>
Total deferred income tax expense (benefit) from continuing operations	<u>14,867</u>	<u>(1,849)</u>	<u>(60,194)</u>
Total income tax expense (benefit) from continuing operations	<u>\$ 6,532</u>	<u>\$(7,349)</u>	<u>\$(66,264)</u>

There were no tax benefits for the years ended December 31, 2014, 2013 and 2012, respectively, associated with the exercise of stock options that were recorded to additional paid-in capital. Tax benefits associated with the “Windfall” for stock options exercised are determined on a “with and without” basis.

During 2012, vested non-qualified stock options (NQSO) were cancelled resulting in a reversal of the related deferred tax asset. As a result, the Company’s additional paid-in capital “windfall” account was reduced to zero and an additional deferred tax expense of \$113 was reflected in tax expense. For 2013, a deferred tax expense of \$11 was reflected in tax expense related to cancelled vested non-qualified stock options. For 2014, all outstanding non-qualified stock options were cancelled resulting in a deferred tax expense of \$4,806.

A deferred tax expense of \$0, \$244, and \$70 relating to the cumulative translation adjustment of the Company’s foreign subsidiaries financial statements is recorded in other comprehensive (loss) income for the years ended December 31, 2014, 2013 and 2012, respectively.

During the years ended December 31, 2014, 2013 and 2012, the Company recorded adjustments to income tax and deferred income taxes related to a change in state taxable income apportionment percent. Amounts recorded in 2014, 2013 and 2012 were to recognize a deferred income tax expense of \$0, \$26 and a state deferred income tax benefit of \$331, respectively.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 13—INCOME TAXES (Continued)

Following is a reconciliation of the Company's effective income tax rate from continuing operations to the United States federal statutory tax rate:

	<u>Year Ended</u> <u>December 31, 2014</u>	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
Expected tax at U.S. statutory income tax rate . . .	35.0%	35.0%	35.0%
U.S. state and local income taxes net of federal income tax effect	(0.1)%	(0.1)%	0.3%
Foreign rate differential	(5.6)%	(5.9)%	(1.1)%
Foreign unremitted earnings	(20.1)%	1.1%	0.4%
Goodwill impairment	0.0%	0.0%	(10.4)%
Other non-deductible fees and expenses	0.0%	(0.5)%	(0.1)%
Unrecognized tax benefits	1.4%	(0.6)%	0.3%
Stock option cancellations	(32.3)%	0.0%	0.0%
Change in valuation allowance	(19.0)%	0.0%	0.0%
Other	<u>0.4%</u>	<u>(0.3)%</u>	<u>(0.5)%</u>
Effective tax rate	<u>(40.3)%</u>	<u>28.7%</u>	<u>23.9%</u>

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 13—INCOME TAXES (Continued)

The effect of temporary differences is included in deferred tax accounts as follows:

	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>
Deferred tax assets:		
Current deferred tax assets:		
Accrued salaries and benefits	\$ 11	\$ 67
Deferred compensation	—	221
Bad debt reserves	48	49
Inventories	14	236
Product performance accrual	21	1,483
Other	—	25
Total current deferred tax assets before valuation allowance	<u>\$ 94</u>	<u>\$ 2,081</u>
Valuation allowance	(94)	—
Current deferred tax assets	<u>\$ —</u>	<u>\$ 2,081</u>
Long-term deferred tax assets:		
Deferred compensation	\$ 71	\$ 70
Non-qualified stock option compensation	—	4,223
Restricted stock compensation	2	537
Operating loss carryforwards	6,436	4,225
Fixed assets	272	4,998
Other	549	392
Total long-term deferred tax assets before valuation allowance	<u>\$ 7,330</u>	<u>\$14,445</u>
Valuation allowance	(7,330)	(1,247)
Long term-deferred tax assets	<u>—</u>	<u>13,198</u>
Total deferred tax assets	<u>\$ —</u>	<u>\$15,279</u>
Deferred tax liabilities:		
Foreign unremitted earnings	\$ —	\$ —
Total deferred tax liabilities	<u>\$ —</u>	<u>\$ —</u>
Total net deferred tax assets	<u>\$ —</u>	<u>\$15,279</u>

A valuation allowance is recorded on certain deferred tax assets if it has been determined it is more likely than not that all or a portion of these assets will not be realized. The Company has recorded a valuation allowance of \$7,424 and \$1,247 for deferred tax assets existing as of December 31, 2014 and December 31, 2013, respectively. The valuation allowance as of December 31, 2014 is attributable to deferred taxes in the United States and net operating loss carryforwards in the United States, Spain, China and Hong Kong. The valuation allowance as of December 31, 2013 was primarily attributable to net operating loss carryforwards in China and Hong Kong.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 13—INCOME TAXES (Continued)

The Company recognizes interest accrued related to its liability for unrecognized tax benefits and penalties in income tax expense. The Company recorded interest and penalties related to unrecognized tax benefits as a component of income tax expense from continuing operations in the amount of approximately \$(85), \$214 and \$5 for the years ended December 31, 2014, 2013 and 2012, respectively. The Company had approximately \$1,183 and \$1,154 for the payments of interest and penalties accrued at December 31, 2014 and December 31, 2013, respectively.

A reconciliation of the beginning and ending amount of the Company's liability for unrecognized tax benefits, excluding interest and penalties, is as follows (includes continuing and discontinued operations):

Balance at January 1, 2012	\$ 4,742
Additions for tax positions of prior years	375
Reductions for tax positions of prior years	(1,805)
Balance at December 31, 2012	\$ 3,312
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Balance at December 31, 2013	\$ 3,312
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	(113)
Balance at December 31, 2014	<u>\$ 3,199</u>

The amount of unrecognized tax benefit that would potentially impact the Company's effective tax rate from continuing operations was \$3,199, \$3,274 and \$3,274 (excluding interest and penalties) as of December 31, 2014, 2013 and 2012, respectively. The Company has open tax years from 2004-2014 with various foreign tax jurisdictions. The Company expects \$3,199 (excluding interest and penalties) of unrecognized tax benefits to reverse within the next twelve months.

The Company conducts its business globally and as a result, the Company and one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is subject to examination by taxing authorities in each of these jurisdictions.

The Company has an open tax year of 2014 for U.S. federal tax purposes. The Company has open tax years from 2009-2014 with various state tax jurisdictions. In connection with the examination of the Company's tax returns, contingencies can arise that generally result from differing interpretations of applicable tax laws and regulations as they relate to the amount, timing or inclusion of revenues or expenses in taxable income, or the sustainability of tax credits to reduce incomes taxes payable. The Company believes it has sufficient accruals for its contingent tax liabilities. Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns, although actual results may differ.

During 2013 and 2014, the Company went through several examinations that resulted in no material adjustments, including: an examination in the United States by the Internal Revenue Service for tax years 2011, 2012 and 2013; an examination by the State of Florida for the tax years 2010, 2011

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 13—INCOME TAXES (Continued)

and 2012; and an inspection for the 2012 return filed for Spain. The Company is currently under audit by the State of Massachusetts for tax years 2009, 2010 and 2011.

No U.S. taxes need to be provided for the undistributed earnings of a foreign subsidiary if the Company can assert that such earnings are planned to be reinvested indefinitely outside of the United States. The Company periodically assesses its business operations and the cash flow needs of its foreign and domestic subsidiaries to determine if the earnings of any of its foreign subsidiaries will be indefinitely reinvested outside the United States. As of December 31, 2013, the Company no longer asserted that it would permanently reinvest its Malaysia subsidiary's earnings, as such, the Company is not permanently reinvesting earnings generated in any foreign jurisdiction.

The Company's subsidiary in Malaysia is operating under a tax holiday arrangement which extends through 2019. The impact of its tax holiday on its effective rate is a reduction in the benefit of 5.6%, 4.5% and 0.9% percentage points for 2014, 2013 and 2012, respectively.

During 2014, the Company recorded an accrual for potential adjustments relating to a state audit on filings of the Company's QA business, which was sold in 2011. The Company recorded an income tax expense to discontinued operations of \$884. Refer to Note 3-Discontinued Operations for further explanation.

NOTE 14—STOCKHOLDERS' EQUITY

Preferred Stock

The Company's Board of Directors has authorized 20,000,000 shares of preferred stock, \$0.01 par value, issuable in series. At December 31, 2014 and 2013, there were no shares issued or outstanding.

Common Stock

Reverse Stock Split

As more fully described in Note 2, the Company effected a one-for-three reverse split of its common stock on January 30, 2015.

The Company's Board of Directors has authorized 200,000,000 shares of common stock, \$0.01 par value. At December 31, 2014, there were 18,074,291 shares of issued and 18,073,051 shares of outstanding common stock. Each share of common stock is entitled to one vote per share. Included in the 18,073,051 shares outstanding are 18,065,672 shares of common stock and 7,379 shares of restricted unvested common stock.

At December 31, 2013, there were 13,962,305 shares of issued and 13,961,065 shares of outstanding common stock. Each share of common stock is entitled to one vote per share. Included in the 13,961,065 shares are 13,922,842 common shares and 38,223 restricted unvested common shares.

On January 31, 2014, the Company commenced a modified "Dutch Auction" tender offer (the "Offer") to repurchase, for cash, up to \$30,000 of shares of the Company's common stock. On March 7, 2014, the Offer closed resulting in the repurchase of 5,203,986 shares at \$4.62 per share. The Company used a portion of the Company's cash and cash equivalents to purchase and retire such shares of its common stock for an aggregate purchase price of \$24,042, excluding fees and expenses

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 14—STOCKHOLDERS' EQUITY (Continued)

associated with the Offer. Fees and expenses relating to the tender amounted to \$2,387, all of which were paid during the year ended December 31, 2014.

On August 11, 2014, the Company entered into the Purchase Agreement with the Purchaser, pursuant to which the Company agreed to issue and sell to the Purchaser, and the Purchaser agreed to purchase from the Company, an aggregate of approximately 9,210,710 shares (the "Purchased Shares") of its authorized but unissued common stock, par value \$0.01 per share (the "Common Stock"), to the Purchaser for an aggregate purchase price ("Purchased Price") of approximately \$21,664, or \$2.35 per share (the "Transaction"). The Purchased Shares represented approximately 51% of the Company's outstanding shares upon the closing of the Transaction (the "Closing"), which occurred on December 15, 2014.

Treasury Stock

At December 31, 2014 and 2013, there were 1,240 shares held in treasury that were purchased at a cost of \$57.

NOTE 15—STOCK-BASED COMPENSATION

On November 6, 2009, the Company's Board of Directors approved the Company's 2009 Equity Incentive Plan (the "2009 Plan") which became effective on the same day. Effective May 14, 2013, the 2009 Plan was amended to increase the number of shares subject to the Plan. As a result, a total of 4,133,333 shares of common stock are reserved for issuance under the 2009 Plan. The 2009 Plan is administered by the Board of Directors or any committee designated by the Board of Directors, which has the authority to designate participants and determine the number and type of awards to be granted, the time at which awards are exercisable, the method of payment and any other terms or conditions of the awards. The 2009 Plan provides for the grant of stock options, including incentive stock options and nonqualified stock options, collectively, "options," stock appreciation rights, shares of restricted stock, or "restricted stock," rights to dividend equivalents and other stock-based awards, collectively, the "awards." The Board of Directors or the committee will, with regard to each award, determine the terms and conditions of the award, including the number of shares subject to the award, the vesting terms of the award, and the purchase price for the award. Awards may be made in assumption of or in substitution for outstanding awards previously granted by the Company or its affiliates, or a company acquired by the Company or with which it combines. Options outstanding generally vest over a three or four-year period and expire ten years from date of grant.

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 15—STOCK-BASED COMPENSATION (Continued)

The following table summarizes the Company's stock-based compensation awards under the 2009 Plan during 2014, 2013 and 2012:

<u>Date</u>	<u>Award Type</u>	<u>Exercise Price</u>	<u>Shares</u>	<u>Recipient</u>
4 th Quarter 2014	Restricted Stock	\$ 4.11	20,857	Board of Directors
3 rd Quarter 2014	Restricted Stock	\$ 4.05	17,735	Board of Directors
2 nd Quarter 2014	Restricted Stock	\$ 4.30	57,568	Board of Directors
2 nd Quarter 2014	Options	\$ 1.59	1,000,000	Various Employees
1 st Quarter 2014	Restricted Stock	\$ 4.71	16,720	Board of Directors
4 th Quarter 2013	Restricted Stock	\$ 6.69	11,772	Board of Directors
3 rd Quarter 2013	Restricted Stock	\$ 6.81	12,496	Board of Directors
3 rd Quarter 2013	Options	\$ 2.27	50,000	Various Employees
2 nd Quarter 2013	Restricted Stock	\$ 8.25	43,917	Board of Directors
4 th Quarter 2012	Options	\$ 3.10	1,185,000	Various Employees
3 rd Quarter 2012	Restricted Stock	\$12.81	3,061	Board of Directors
2 nd Quarter 2012	Restricted Stock	\$11.46	14,912	Board of Directors

There were 3,514,878 shares available for grant under the 2009 Plan as of December 31, 2014.

The 1,000,000 options granted during the year ended December 31, 2014, vest equally on each of the three anniversaries of the date of grant, subject to acceleration in certain circumstances.

The Company determined the fair value of the stock options issued in 2014 and 2013 using the Black-Scholes option pricing model. The Company's assumptions about stock-price volatility were based on the historical implied volatilities of its common stock and those of other publicly traded options to buy stock with contractual terms closest to the expected life of options granted to the Company's employees. The expected term represents the estimated time until employee exercise is estimated to occur taking into account vesting schedules and using the Hull-White model. The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury 10 year zero-coupon strip yield in effect at the time of grant. The expected dividend yield was based on the assumption that no dividends are expected to be distributed in the near future.

The following table presents the assumptions used to estimate the fair values of the stock options granted during the periods presented below:

	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>	<u>Year Ended December 31, 2012</u>
Expected volatility	55.1%	58.9%	75.3%
Risk-free interest rates	2.7%	2.5%	0.6%
Expected term (in years)	6.7	7.4	4.4
Dividend yield	—	—	—
Weighted-average estimated fair value of options granted during the period	\$0.90	\$1.40	\$1.79

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 15—STOCK-BASED COMPENSATION (Continued)

Stock Option Cancellations

During 2014, 1,365,916 stock options were cancelled due to the termination of employment of certain employees at the end of 2013. Since no tax windfall pool existed in additional paid-in-capital, the reduction in the deferred tax asset of \$1,377 was charged to income tax expense as a discrete item 2014.

Due to the closing of the transaction with Zhenfa, which constituted a change of control transaction under the Company's equity incentive plan, it elected, as permitted under such plan, to cancel all outstanding options effective as of the closing of that transaction. The Company cancelled the options due to material changes in its business and capital structure which would significantly impact its previous issued options. These changes included the share issuance which represented a change in control and approximately doubled the Company's share count, payment of the Special Dividend and the reverse stock split. All of these items represented material changes to its capital structure and market capitalization and could materially impact the trading price of its common stock. Due to the uncertainty, the Company cancelled the options prior to the transaction with Zhenfa and would reissue new options at a later date when its capital structure was established, including the amount of the reverse stock split, and the Company's stock price traded for a period of time subsequent to all of these transactions.

In total, options to purchase 3,405,389 shares were cancelled of which options to purchase 2,100,389 shares had been fully vested. The Company recorded a non-cash stock compensation expense of \$1,076 associated with the cancellation. As of December 31, 2014 the Company has not reissued new options.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 15—STOCK-BASED COMPENSATION (Continued)

The following table summarizes the stock option activity under the Company's 2009 Plan for the three years ended December 31, 2014:

	Options Outstanding				
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value(1)
Balance at January 1, 2012	3,400,121	\$ 11.63		\$ 4.82	\$(30,975)
Options granted	1,185,000	\$ 3.10		\$ 1.79	\$ —
Exercised	—	\$ —		\$ —	\$ —
Cancelled/forfeited	(655,211)	\$ 11.84		\$ —	\$ —
Balance at December 31, 2012	3,929,910	\$ 9.03	7.75	\$ 3.84	\$(29,317)
Options granted	50,000	\$ 2.27	7.41	\$ 1.40	\$ (35)
Exercised	—	\$ —	—	\$ —	\$ —
Cancelled/forfeited	(208,605)	\$ 5.43	—	\$ 2.85	\$ —
Balance at December 31, 2013	3,771,305	\$ 9.13	6.71	\$ 3.87	\$(29,265)
Options granted	1,000,000	\$ 1.59		\$ 0.90	\$ —
Exercised	—	\$ —	—	\$ —	\$ —
Cancelled/forfeited	(4,771,305)	\$ 7.55	—	\$ 3.25	\$ —
Balance at December 31, 2014	—	\$ —	—	\$ —	\$ —
Vested and exercisable as of December 31, 2014	—	\$ —	—	\$ —	\$ —
Vested and exercisable as of December 31, 2014 and expected to vest thereafter	—	\$ —	—	\$ —	\$ —

(1) The aggregate intrinsic value for December 31, 2013 is calculated as the difference between the exercise price of the underlying awards and the closing stock price of \$1.37 of the Company's common stock on December 31, 2014. For December 31, 2012 the closing stock price of \$1.57 as of December 31, 2013 was used and for January 1, 2012 the closing stock price of \$2.52 as of December 31, 2012 was used.

As of December 31, 2014, there was \$0 of unrecognized compensation cost related to outstanding stock option awards. The Company did not receive any proceeds related to the exercise of stock options for the years ended December 31, 2014, 2013 and 2012, respectively.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 15—STOCK-BASED COMPENSATION (Continued)

The following table summarizes the restricted shares activity for the three years ended December 31, 2014:

	Unvested Restricted Shares	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2012	141,770	\$30.24
Granted	17,973	\$11.70
Vested	(117,056)	\$30.33
Cancelled	—	\$ —
Unvested at December 31, 2012	42,687	\$22.38
Granted	68,185	\$ 7.92
Vested	(68,814)	\$14.25
Cancelled	(3,835)	\$24.33
Unvested at December 31, 2013	38,223	\$12.96
Granted	112,880	\$ 4.74
Vested	(135,512)	\$ 9.15
Cancelled	(8,212)	\$ —
Unvested at December 31, 2014	7,379	\$ —
Expected to vest after December 31, 2014	7,379	\$ —

As of December 31, 2014, there was \$23 of unrecognized compensation cost related to unvested restricted shares. This amount is expected to be recognized over a weighted-average remaining vesting period of less than one year. To the extent the actual forfeiture rate is different from what the Company has anticipated, stock-based compensation related to these awards will be different from its expectations.

On November 9, 2010, the Company's Board of Directors adopted the ESPP and reserved 166,667 shares of the Company's common stock for issuance thereunder. The ESPP was made effective upon its approval by the votes of the Company's stockholders on May 24, 2011 during the Company's annual meeting for the purpose of qualifying such shares for special tax treatment under Section 423 of the Internal Revenue Code of 1986, as amended.

Under the ESPP, eligible employees may use payroll withholdings to purchase shares of the Company's common stock at a 10% discount. The Company has established four offering periods in which eligible employees may participate. The first offering period commenced in the fourth quarter of 2011. The Company purchases the number of required shares each period based upon the employees' contribution plus the 10% discount. The number of shares purchased times the 10% discount is recorded by the Company as stock-based compensation. The Company recorded less than \$1, \$1 and \$4 in stock-based compensation expense relating to the ESPP for the years ended December 31, 2014, 2013 and 2012, respectively. There were 159,592 shares available for purchase under the ESPP as of December 31, 2014.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 15—STOCK-BASED COMPENSATION (Continued)

Stock-based compensation expense was included in the following consolidated statements of comprehensive loss categories for continuing operations:

	Years Ended December 31,		
	2014	2013	2012
Selling, general and administrative expense	\$2,380	\$1,872	\$3,466
Research and development expense	\$ —	\$ 30	\$ 28
Total option exercise recognized tax benefit	\$ —	\$ —	\$ —

Deferred Compensation

The Company had a deferred compensation arrangement with certain members of management, including Robert S. Yorgenesen, that stated upon the earlier of December 31, 2015, sale of the Company (which included a change of control transaction), or termination of employment for any reason, the members were entitled to bonus payments based upon a formula set forth in their respective employment agreements. The payments were tied to distribution amounts they would have received with respect to their former ownership in the predecessor Company if the assets were sold at fair market value compared to the value of the Company's stock price. The amount of the potential bonus payment was capped at \$1,180. In accordance with ASC 718-30, the obligation should have been remeasured quarterly at fair value. The Company determined fair value using observable current market information as of the reporting date. The most significant input to determine the fair value was determined to be the Company's common stock price which is a Level 2 input. Based upon the difference of the floor in the agreements and the effective valuation of the Transaction of \$4.80 per share for Mr. Yorgensen, \$204 of accrued compensation was recorded in other current liabilities in the Consolidated Balance Sheet.

NOTE 16—REPORTABLE SEGMENT AND GEOGRAPHICAL INFORMATION

ASC 280-10-50-Disclosure about Segments of an Enterprise and Related Information, establishes standards for the manner in which companies report information about operating segments, products, 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 enterprise for making operating decisions and assessing financial performance. Prior to the sale of its QA business, the Company reported two operating segments: QA and Solar. Due to the sale, QA is being reported as a discontinued operation and the Company reassessed its segment reporting. Since the Company has one product, sells to global customers in one industry, procures raw materials from similar vendors and expects similar long-term economic characteristics, the Company has one reporting segment and the information as to its operation is set forth below.

Adjusted EBITDA is the main metric used by the management team and the Board of Directors to plan, forecast and review the Company's segment performance. Adjusted EBITDA represents net loss from continuing operations before interest income and expense, income tax expense, depreciation, amortization of intangible assets, stock-based compensation expense, restructuring, transaction fees and certain non-recurring income and expenses from the results of operations.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 16—REPORTABLE SEGMENT AND GEOGRAPHICAL INFORMATION (Continued)

The following tables set forth information about the Company's operations by its reportable segment and by geographic area:

Operations by Reportable Segment

	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>	<u>Year Ended December 31, 2012</u>
Reconciliation of Adjusted			
EBITDA to Net Loss from			
Continuing Operations			
Adjusted EBITDA	\$(15,559)	\$(17,150)	\$ 3,123
Depreciation and amortization	(2,078)	(2,024)	(19,687)
Amortization of deferred financing costs	—	(189)	(1,079)
Interest income (expense), net	27	(30)	(196)
Income tax (expense) benefit	(6,532)	7,349	66,264
Goodwill impairment	—	—	(82,524)
Intangible asset impairment	—	—	(135,480)
Asset impairment	—	(194)	(37,431)
Restructuring	356	(4,331)	(1,069)
Stock-based compensation	(2,380)	(1,902)	(3,494)
Non-cash reversal of loss contingency	4,089	—	—
Loss on reclassification of held for sale assets	(1,179)	—	—
Non-cash reversal of Spanish grants	974	—	—
(Loss) gain on disposal of property, plant and equipment	(451)	185	(2)
Net Loss from Continuing Operations	<u>\$(22,733)</u>	<u>\$(18,286)</u>	<u>\$(211,575)</u>

Operations by Geographic Area

	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>	<u>Year Ended December 31, 2012</u>
Net Sales			
United States	\$ 52	\$ 1,976	\$17,037
Spain	24,110	16,996	38,881
Malaysia	8,959	11,553	39,427
China	6,167	1,335	—
Total Net Sales	<u>\$39,288</u>	<u>\$31,860</u>	<u>\$95,345</u>

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 16—REPORTABLE SEGMENT AND GEOGRAPHICAL INFORMATION (Continued)

Long-Lived Assets by Geographic Area

	December 31, 2014	December 31, 2013
Long-Lived Assets		
United States	\$ 583	\$ 6,906
Malaysia	8,611	9,354
Spain	7,997	9,141
China	3,004	2,994
Hong Kong	—	3
Total Long-Lived Assets	\$20,195	\$28,398

Foreign sales are based on the country in which the net sales originated. Net sales to one of the Company’s major customers for the year ended December 31, 2014 was \$14,345. Net sales to four of the Company’s major customers that exceeded 10% of the Company’s consolidated net sales for the year ended December 31, 2013 was \$17,924. Net sales to one of the Company’s major customers for the year ended December 31, 2012 was \$39,162. Accounts receivable from one customer amounted to \$6,334 as of December 31, 2014 and from four customers amounted to \$4,148 as of December 31, 2013.

NOTE 17—EMPLOYEE BENEFIT PLANS

The Company maintained one defined contribution benefit plan for the years ended December 31, 2014 and 2013 covering substantially all U.S. domestic employees. The Company makes matching contributions to the plans and can also make discretionary contributions to the plans. The Company’s expense under these plans was \$0, \$0 and \$225 for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company also maintained defined contribution benefit plans for certain foreign employees. The expense under these plans was \$161, \$123 and \$98 for the years ended December 31, 2014, 2013 and 2012, respectively.

NOTE 18—RELATED PARTIES

The Company did not have any related party transactions during 2013 and 2012. For further information regarding 2014, see Note 19 and Note 20.

NOTE 19—TRANSACTION WITH ZHEN FA NEW ENERGY (U.S.) CO., LTD. AND ZHENFA ENERGY GROUP CO., LTD.

The Company has entered into certain definitive agreements with Zhenfa Energy Group Co., Ltd., a Chinese limited liability company (“Zhenfa”) and its indirect wholly-owned subsidiary, Zhen Fa New Energy (U.S.) Co., Ltd., a Nevada corporation (the “Purchaser”).

STR Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 19—TRANSACTION WITH ZHEN FA NEW ENERGY (U.S.) CO., LTD. AND ZHENFA ENERGY GROUP CO., LTD. (Continued)

Purchase Agreement and Special Dividend

On August 11, 2014, the Company entered into a Stock Purchase Agreement with the Purchaser, pursuant to which the Company agreed to issue and sell to the Purchaser, and the Purchaser agreed to purchase from the Company, an aggregate of approximately 9,210,710 shares of its common stock, par value \$0.01 per share, to the Purchaser for an aggregate purchase price of approximately \$21,664, or \$2.35 per share. The Purchased Shares represented approximately 51% of the Company's outstanding shares of common stock upon the closing of the Transaction, which occurred on December 15, 2014.

In connection with the Closing, the Company declared a special dividend (the "Special Dividend") on December 11, 2014 to be paid to all of its stockholders of record (other than the Purchaser) in an amount equal to \$2.55 per common share on January 2, 2015.

In addition, in connection with the execution of the Purchase Agreement, Specialized Technology Resources, Inc., a subsidiary of the Company, entered into a sales service agreement (the "Sales Service Agreement") with Zhenfa, whereby Zhenfa agreed, among other things, to assist the Company in a number of endeavors, including, without limitation, marketing and selling its products in China, acquiring local raw materials, hiring and training personnel in China, and complying with Chinese law. The Company also entered into a guarantee agreement ("Guarantee Agreement") with Zhenfa pursuant to which Zhenfa agreed to guarantee all obligations of the Purchaser under the Purchase Agreement, including, but not limited to, the payment of the Purchase Price and the performance of all covenants and agreements of the Purchaser in the Purchase Agreement.

Sales Service Agreement

In connection with the execution of the Purchase Agreement, Specialized Technology Resources, Inc., the operating subsidiary of the Company, entered into the Sales Service Agreement with Zhenfa whereby Zhenfa has agreed, among other things, to assist the Company in a number of endeavors, including, without limitation, marketing and selling the Company's products in China, acquiring local raw materials, hiring and training personnel in China, and complying with Chinese law. Pursuant to the Sales Service Agreement, Zhenfa has also provided the Company with an option to lease a manufacturing facility owned by Zhenfa. Such facility will be at least 107,639 square feet and will be rent free for a period of at least five years. The Sales Service Agreement further provides that if the Company leases the facility, Zhenfa will provide an option to extend the lease at 50% of market rent (as to be determined) for a second five year term. The Sales Service Agreement became effective on the Closing date, has an initial term of two years following the date of Closing and is automatically extended for one year periods unless terminated earlier by either party. The Sales Service Agreement may also be terminated by either party at such time as Zhenfa and its affiliates own less than 10% of the outstanding common stock of the Company.

About Zhenfa

Zhenfa Energy Group Co. Ltd., referred to as Zhenfa Energy, is a leading solar systems integrator, engineering, procurement, and construction company and solar power station owner-operator within

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 19—TRANSACTION WITH ZHEN FA NEW ENERGY (U.S.) CO., LTD. AND ZHENFA ENERGY GROUP CO., LTD. (Continued)

China. At the end of 2013, the Zhenfa Group had developed and installed approximately two GW of solar power in China, including unique utility scale solar projects in which solar arrays are constructed and utilized in conjunction with fisheries in intertidal zones and agricultural projects in desertification areas. The Zhenfa Group holds Chinese patents in a self-adaptive sun tracking system for solar arrays that increases the efficiency of solar projects by up to 25% over fixed tracking systems, and in 2013 won a bid to construct a 13 MW ground mounted solar project in Canberra, Australia.

The Company entered into this Transaction for the following strategic considerations:

- that China has become one of the world's largest solar module manufacturing markets. The Company has struggled to effectively penetrate that market in order to compete effectively. The Zhenfa Group is owned and headquartered in China and represents a significant customer of many top-tier Chinese module manufacturers;
- that the proposed Transaction should enhance the Company's presence in China and could significantly improve the Company's operating results if the Zhenfa Group were to be successful in assisting the Company in marketing and selling the Company's products to China-based solar module manufacturers;
- that the Sales Service Agreement contemplates that the Zhenfa Group will provide the Company with the opportunity to lease on favorable terms a manufacturing facility in China, and other valuable assistance in doing business in China; and
- that, given their complementary businesses, additional opportunities may be available to the Zhenfa Group and the Company to successfully expand their cooperation.

For further information on the the Stock Purchase Agreement, the Sales Service Agreement, the Guarantee Agreement, Zhenfa and the Transaction, refer to the proxy statement filed with the SEC on October 8, 2014.

NOTE 20—SUBSEQUENT EVENTS

Reverse Stock Split

On January 30, 2015, the Company effected a one-for-three reverse split of its common stock. No fractional shares were issued in connection with the reverse stock split. The change in the number of shares resulting from the reverse stock split has been applied retroactively to all shares and per share amounts presented in the consolidated financial statements and accompanying notes, unless otherwise noted. As a result of the reverse stock split, the number of issued and outstanding shares of its common stock was reduced to approximately 18,074,291 and 18,073,051, respectively, at December 31, 2014.

Related Party Transaction

The Company's Chinese subsidiary, Specialized Technology Resources Solar (Suzhou) Co. Ltd. ("STR China") entered into a supply agreement (the "Huhui Supply Agreement") dated as of December 31, 2014 with Zhangjiagang Huhui Segpv Co. Ltd ("Huhui"), an affiliate of Zhenfa.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 20—SUBSEQUENT EVENTS (Continued)

Pursuant to the Huhui Supply Agreement, STR China has agreed to supply Huhui, a solar module manufacturer, with the Company's encapsulant products and Huhui has agreed (i) to purchase not less than 535 MW worth of encapsulants (the "Minimum Amount") during each contract year, (ii) pay the Company a deposit equal to 10% of the Minimum Amount, and (iii) not to purchase encapsulant products from other encapsulant manufacturers. The term of Huhui Supply Agreement terminates on December 31, 2015 and shall automatically renew for additional one year terms if either party fails to notify the other party at least 90 days prior to the end of the then current term that it is electing to terminate the agreement. The Company expects to commence receiving purchase orders from Huhui during the second quarter of 2015 following the completion of qualification testing which is currently underway. The Company believes that the terms and conditions set forth in the Huhui Agreement are fair and reasonable to the Company.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

This annual report does not include an audit or attestation report of our registered public accounting firm regarding our internal control over financial reporting because the attestation report requirement has been removed for “smaller reporting companies” under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.”

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chairman, President and Chief Executive Officer and our Vice President and Chief Financial Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of December 31, 2014, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman, President and Chief Executive Officer and our Vice President and Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”). Based upon that evaluation, our Chairman, President and Chief Executive Officer and our Vice President and Chief Financial Officer and Chief Accounting Officer concluded that our disclosure controls and procedures are effective.

Report of Management on Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control—Integrated Framework (2013).

Based on our assessment, management has concluded that, as of December 31, 2014, our internal control over financial reporting is effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter of the Company’s fiscal year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

All information in this Part may be found in the Company’s proxy statement (the “Proxy Statement”) to be delivered to stockholders not later than 120 days after the end of the fiscal year covered by this Annual Report in connection with the annual meeting of stockholders, which is scheduled for May 13, 2015 (the “Annual Meeting”) and such information is incorporated in this report by reference pursuant to General Instruction G (3) of Form 10-K.

A list of the Company’s executive officers, together with their respective offices presently held with the Company or its subsidiaries, their business experience since January 1, 2009, and their ages as of the date of this report is set forth under Item 1—Business above.

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be included in our Proxy Statement and is incorporated by reference herein.

ITEM 11. Executive Compensation

The information required by this Item will be included in our Proxy Statement and is incorporated by reference herein.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be included in our Proxy Statement and is incorporated by reference herein.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be included in our Proxy Statement and is incorporated by reference herein.

ITEM 14. Principal Accountant Fees and Services

The information required by this Item will be included in our Proxy Statement and is incorporated by reference herein.

PART IV

ITEM 15. Exhibits and Financial Statement Schedule

(a) List of documents filed as part of this report or incorporated herein by reference:

(1) Financial Statements:

The following financial statements of the Registrant as set forth under Part II, Item 8 of this Annual Report on Form 10-K on the pages indicated.

	Page in this Form 10-K
Reports of Independent Registered Public Accounting Firm	81
Consolidated Balance Sheets as of December 31, 2014 and 2013	83
Consolidated Statements of Comprehensive Loss for the years ended December 31, 2014, 2013 and 2012	84
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012	85
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	86
Notes to Consolidated Financial Statements	87

(2) Financial Statement Schedule:

Schedule II-Valuation and Qualifying Accounts	128
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Schedule II-Valuation and Qualifying Accounts
STR Holdings, Inc. and Subsidiaries

	<u>Beginning Balance</u>	<u>Additions/ Charged to Expenses</u>	<u>Currency Impact</u>	<u>Reductions</u>	<u>Balance at End of Period</u>
Accounts Receivable Allowance for Doubtful					
Accounts:					
Year ended December 31, 2014	\$2,051	483	(133)	(1,568)	\$ 833
Year ended December 31, 2013	\$ 118	1,824	109	—	\$2,051
Year ended December 31, 2012	\$ 225	486	—	(593)	\$ 118
Tax Valuation Allowance:					
Year ended December 31, 2014	\$1,247	6,177	—	—	\$7,424
Year ended December 31, 2013	\$ 491	756	—	—	\$1,247
Year ended December 31, 2012	\$ —	491	—	—	\$ 491
Inventory Reserve:					
Year ended December 31, 2014	\$ 445	907	(2)	(395)	\$ 955
Year ended December 31, 2013	\$ 678	352	2	(587)	\$ 445
Year ended December 31, 2012	\$ 446	260	2	(30)	\$ 678

(3) Exhibits:

EXHIBIT INDEX

- ††2.1 Stock Purchase Agreement, dated August 11, 2014, by and between STR Holdings, Inc. and Zhen Fa New Energy (U.S.) Co., Ltd. (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 12, 2014 (file no. 001-34529) and incorporated herein by reference).
- 3.1 Certificate of Incorporation of STR Holdings, Inc. (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on November 17, 2009 (file no. 001-34529) and incorporated herein by reference).
- 3.2 Certificate of Amendment of Certificate of Incorporation. ((filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 30, 2015 (file no. 001-34529) and incorporated herein by reference).
- 3.3 Bylaws of the STR Holdings, Inc. (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on November 17, 2009 (file no. 001-34529) and incorporated herein by reference).
- 4.1 Form of Common Stock Certificate. (filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed on November 17, 2009 (file no. 001-34529) and incorporated herein by reference).
- †10.1 Form of Indemnification Agreement between STR Holdings, Inc. and each of its directors and executive officers. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 17, 2009 (file no. 001-34529) and incorporated herein by reference).
- †10.2 2009 Equity Incentive Plan. (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 17, 2009 (file no. 001-34529) and incorporated herein by reference).
- †10.4 Employment Agreement, dated as of December 7, 2011, between Specialized Technology Resources, Inc. and Robert S. Yorgensen. (filed as Exhibit 10.1 on the Company's Form 8-K filed on December 13, 2011 (file no. 001-34529) and incorporated herein by reference).
- †10.5 Employment Agreement, dated as of April 12, 2010, between Specialized Technology Resources, Inc. and Alan N. Forman. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 12, 2010 (file no. 001-34529) and incorporated herein by reference).
- †*10.6 Form of STR Holdings, Inc. Restricted Stock Agreement for executive officers that held incentive units in STR Holdings (New) LLC. (filed as Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q filed on November 17, 2009 (file no. 001-34529) and incorporated herein by reference).
- †10.7 Form of STR Holdings, Inc. Restricted Stock Agreement for other holders of units in STR Holdings (New) LLC. (filed as Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q filed on November 17, 2009 (file no. 001-34529) and incorporated herein by reference).

- †10.8 Form of Restricted Stock Agreement of STR Holdings, Inc. (filed as Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q filed on November 17, 2009 (file no. 001-34529) and incorporated herein by reference).
- †10.9 Specialized Technology Resources, Inc. Management Incentive Plan. (filed as Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q filed on November 17, 2009 (file no. 001-34529) and incorporated herein by reference).
- †10.10 Form of STR Holdings, Inc. Option Award Agreement for executive officers. (filed as Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q filed on November 17, 2009 (file no. 001-34529) and incorporated herein by reference).
- †10.18 Form of Executive Severance Agreement (filed as Exhibit 10.2 to the Company's Form 8-K filed on October 3, 2012 (file no.001-34529) and incorporated herein by reference).
- †10.20 Executive Severance Agreement dated October 1, 2012 between the Company and Robert S. Yorgensen (filed as Exhibit 10.4 to the Company's Form 10-Q filed on November 8, 2012 (file no. 001-34529) and incorporated herein by reference).
- †10.22 Executive Severance Agreement dated October 1, 2012 between the Company and Alan N. Forman (filed as Exhibit 10.6 to the Company's Form 10-Q filed on November 8, 2012 (file no. 001-34529) and incorporated herein by reference).
- †10.23 Executive Severance Agreement dated October 1, 2012 between the Company and Joseph C. Radziewicz (filed as Exhibit 10.7 to the Company's Form 10-Q filed on November 8, 2012 (file no. 001-34529) and incorporated herein by reference).
- †10.24 Retention Bonus Letter Agreement, dated July 18, 2013, by and between STR Holdings, Inc. and Robert S. Yorgensen (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 23, 2013 (file no. 001-34529) and incorporated herein by reference).
- †10.25 Retention Bonus Letter Agreement, dated July 18, 2013, by and between STR Holdings, Inc. and Alan N. Forman (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 23, 2013 (file no. 001-34529) and incorporated herein by reference).
- †10.26 Amendment of Retention Bonus Letter Agreement, dated July 7, 2014, by and between STR Holdings, Inc. and Alan N. Forman (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 11, 2014 (file no. 001-34529) and incorporated herein by reference).
- †10.27 Amendment of Retention Bonus Letter Agreement, dated July 7, 2014, by and between STR Holdings, Inc. and Alan N. Forman (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 11, 2014 (file no. 001-34529) and incorporated herein by reference).
- †10.28 Amendment of Retention Bonus Letter Agreement, dated July 7, 2014, by and between STR Holdings, Inc. and Joseph C. Radziewicz (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on July 11, 2014 (file no. 001-34529) and incorporated herein by reference).
- 10.29 Sales Service Agreement, dated as of August 11, 2014, by and between Specialized Technology Resources, Inc. and Zhenfa Energy Group Co., Ltd. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 12, 2014 (file no. 001-34529) and incorporated herein by reference).

- 10.30 Registration Rights Agreement, dated as of December 15, 2014, by and between STR Holdings, Inc. and Zhen Fa New Energy (U.S.) Co., Ltd. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 15, 2014 (file no. 001-34529) and incorporated herein by reference).
- 10.31 Guarantee Agreement, dated as of August 11, 2014, by and between STR Holdings, Inc. and Zhenfa Energy Group Co., Ltd. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on August 12, 2014 (file no. 001-34529) and incorporated herein by reference).
- 10.32 Photocap Supply Agreement dated as of December 31, 2014, by and between Specialized Technology Resources Solar (Suzhou) Co., Ltd and Zhangjiagang Huhui Segpv Co., Ltd.
- *21 Subsidiaries of STR Holdings, Inc.
- *23.1 Consent of UHY LLP, Independent Registered Public Accounting Firm.
- *23.2 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
- *31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- *31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- **32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- **32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- ***101.INS XBRL Instance Document
- ***101.SCH XBRL Taxonomy Extension Schema Document
- ***101.DEF XBRL Definition Linkbase Document
- ***101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- ***101.LAB XBRL Taxonomy Extension Label Linkbase Document
- ***101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

*** In accordance with Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

† Management contract or compensatory plan or arrangement.

†† Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby undertakes to furnish supplementally copies of any of the omitted schedules upon request by the SEC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

STR HOLDINGS, INC.
(Registrant)

By: /s/ ROBERT S. YORGENSEN

Name: Robert S. Yorgensen

Title: *Chairman, President and Chief Executive Officer*

Dated: March 26, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

	<u>Name</u>	<u>Title</u>	<u>Date</u>
By:	<u>/s/ ROBERT S. YORGENSEN</u>	Chairman, President and Chief Executive Officer (Principal Executive Officer)	March 26, 2015
Name:	Robert S. Yorgensen		
By:	<u>/s/ JOSEPH C. RADZIEWICZ</u>	Vice President and Chief Financial Officer and Chief Accounting Officer (Principal Financial Officer and Principal Accounting Officer)	March 26, 2015
Name:	Joseph C. Radziewicz		
By:	<u>/s/ ANDREW AFRICK</u>	Director	March 26, 2015
Name:	Andrew Africk		
By:	<u>/s/ QU CHAO</u>	Director	March 26, 2015
Name:	Qu Chao		
By:	<u>/s/ JOHN A. JANITZ</u>	Director	March 26, 2015
Name:	John A. Janitz		
By:	<u>/s/ ANDREW M. LEITCH</u>	Director	March 26, 2015
Name:	Andrew M. Leitch		
By:	<u>/s/ XIN LIN</u>	Director	March 26, 2015
Name:	Xin Lin		

SUBSIDIARIES OF STR HOLDINGS, INC.

<u>Subsidiary</u>	<u>State or other Jurisdiction of Incorporation</u>
Specialized Technology Resources España S.A.	Spain
Specialized Technology Resources, Inc.	Delaware
Specialized Technology Resources (Connecticut), LLC	Connecticut
Specialized Technology Resources (Hong Kong), Ltd.	Hong Kong
Specialized Technology Resources (Malaysia) Sdn. Bhd.	Malaysia
10 Water Street, LLC.	Connecticut
Specialized Technology Resources India Pvt., Ltd.	India
Specialized Technology Resources Solar (Suzhou) Co. Limited	China

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-162939 and 333-175020) of STR Holdings, Inc. (the "Company") of our report dated March 26, 2015, relating to the consolidated financial statements and financial statement schedule as of December 31, 2014 and 2013 and for the years then ended, which appears in this annual report on Form 10-K of the Company for the year ended December 31, 2014.

/s/ UHY LLP
New York, New York
March 26, 2015

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-162939 and 333-175020) of STR Holdings, Inc. of our report dated March 15, 2013 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Hartford, Connecticut
March 26, 2015

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert S. Yorgensen, certify that:

1. I have reviewed this Annual Report on Form 10-K of STR Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 26, 2015

/s/ ROBERT S. YORGENSEN

Name: Robert S. Yorgensen

Title: *Chairman, President and Chief Executive
Officer (Principal Executive Officer)*

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph C. Radziewicz, certify that:

1. I have reviewed this Annual Report on Form 10-K of STR Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 26, 2015

/s/ JOSEPH C. RADZIEWICZ

Name: Joseph C. Radziewicz

Title: *Vice President, Chief Financial Officer and
Chief Accounting Officer (Principal Financial
Officer and Principal Accounting Officer)*

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chairman, President and Chief Executive Officer of STR Holdings, Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 26, 2015

/s/ ROBERT S. YORGENSEN

Name: Robert S. Yorgensen

Title: *Chairman, President and Chief Executive
Officer (Principal Executive Officer)*

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Vice President and Chief Financial Officer and Chief Accounting Officer of STR Holdings, Inc. (the “Company”), does hereby certify that to my knowledge:

1. the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 26, 2015

/s/ JOSEPH C. RADZIEWICZ

Name: Joseph C. Radziewicz

Title: *Vice President, Chief Financial Officer and
Chief Accounting Officer (Principal Financial
Officer and Principal Accounting Officer)*

Leadership Team

EXECUTIVE OFFICERS

Robert S. Yorgensen

Chairman, President and Chief Executive Officer

Alan N. Forman

Senior Vice President, General Counsel and Secretary

Joseph C. Radziewicz

Vice President, Chief Financial Officer and Chief Accounting Officer

BOARD OF DIRECTORS

Robert S. Yorgensen

Chairman, President and Chief Executive Officer

Andrew D. Africk*

Founder of Searay Capital, LLC

Eugene C. Cha*

Chairman of CPY Financial Factoring Co., Ltd. and
Non-executive director of Core Pacific Yamaichi Securities (HK) Co., Ltd.

Qu Chao

General Manager of Zhenfa Chongqing Overseas Investment Co., Ltd.;
Vice General Manager of Zhenfa; and Vice President of Zhenfa and its
affiliated entities

John A. Janitz*

Chairman and Co-Founding Partner, Evergreen Capital Partners LLC

Andrew M. Leitch*

Former Senior Partner, Deloitte & Touche LLP

Xi (Cindy) Lin

President of Zhen Fa New Energy (U.S.) Co., Ltd.

* Independent Director

Stockholder Information

WORLD HEADQUARTERS

STR Holdings, Inc.
10 Water Street
Enfield, CT 06082
Phone: (860) 272-4235

WEBSITE

www.strsolar.com

MARKETS

STR's common stock is listed on the New York Stock Exchange
under the ticker symbol "STRI".

INVESTOR INQUIRIES

Investor Relations
Phone: (860) 265-1247
investorinfo@strholdings.com

TRANSFER AGENT

Broadridge Corporate Issuer Solutions, Inc.
P.O. Box 1342
Brentwood, NY 11717
Phone: (866) 830-9436
Fax: (215) 553-5402
shareholder@broadridge.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

UHY LLP
19 West 44th Street, 12th Floor
New York, NY 10036

ANNUAL MEETING

Stockholders are invited to attend STR Holdings, Inc.'s
Annual Meeting of Stockholders, which will be held at 2:00 PM
on Wednesday, May 13, 2015, at the Hartford/Windsor Marriott Airport
Hotel located at 28 Day Hill Road, Windsor, Connecticut 06095.



10 Water Street
Enfield, CT 06082
Phone: (860) 272-4235
www.strsolar.com

STRI
LISTED
NYSE