

STR HOLDINGS, INC.  
Form 10-Q  
May 10, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-Q**

**(mark one)**

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

**For the Quarterly Period Ended March 31, 2016**

**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)

**(860) 272-4235**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer o

Accelerated filer o

Non-accelerated filer o

Smaller reporting company x

(Do not check if a smaller reporting company)

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

At April 30, 2016, there were 18,434,348 shares of Common Stock, par value \$0.01 per share, outstanding.



**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**STR Holdings, Inc. and Subsidiaries**

**Three Months Ended March 31, 2016**

	<b>PAGE NUMBER</b>
<b>PART I. FINANCIAL INFORMATION</b>	
<u>Item 1. Financial Statements</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015 (unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2016 and 2015 (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015 (unaudited)</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
<u>Item 4. Controls and Procedures</u>	<u>26</u>
<b>PART II. OTHER INFORMATION</b>	
<u>Item 1. Legal Proceedings</u>	<u>27</u>
<u>Item 1A. Risk Factors</u>	<u>27</u>
<u>Item 5. Other Information</u>	<u>27</u>
<u>Item 6. Exhibits</u>	<u>28</u>
<u>SIGNATURE</u>	<u>29</u>

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****STR Holdings, Inc. and Subsidiaries****CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited)****All amounts in thousands except share and per share amounts**

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$6,631	\$7,703
Bank acceptance notes	155	92
Due from Zhenfa	2,073	2,058
Accounts receivable, trade, less allowances for doubtful accounts of \$879 and \$499 in 2016 and 2015, respectively	9,401	9,112
Inventories, net	3,548	4,806
Income tax receivable	8,252	8,252
Prepaid expenses	1,306	1,221
Other current assets	2,696	2,044
Total current assets	34,062	35,288
Property, plant and equipment, net	10,473	10,581
Assets held for sale (Note 8)	7,898	7,899
Other long-term assets	157	148
Total assets	\$52,590	\$53,916
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$2,493	\$2,192
Accrued liabilities (Note 9)	2,876	3,080
Income taxes payable	994	989
Due to factoring	1,450	483
Total current liabilities	7,813	6,744
Total liabilities	7,813	6,744
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>Stockholders' Equity</b>		
Preferred stock, \$0.01 par value, 20,000,000 shares authorized; no shares issued and outstanding	—	—
	183	182

Edgar Filing: STR HOLDINGS, INC. - Form 10-Q

Common stock, \$0.01 par value, 200,000,000 shares authorized; 18,335,492 and 18,334,252 issued and outstanding, respectively, in 2016 and 18,261,807 and 18,260,567 issued and outstanding, respectively, in 2015

Treasury stock, 1,240 shares at cost	(57 )	(57 )
Additional paid-in capital	231,153	230,999
Accumulated deficit	(181,048)	(178,101)
Accumulated other comprehensive loss, net	(5,454 )	(5,851 )
Total stockholders' equity	44,777	47,172
Total liabilities and stockholders' equity	\$52,590	\$53,916

See accompanying notes to these condensed consolidated financial statements.

**STR Holdings, Inc. and Subsidiaries****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(unaudited)****All amounts in thousands except share and per share amounts**

	Three Months Ended	
	March 31,	
	2016	2015
Net sales	\$6,423	\$6,863
Cost of sales	6,824	7,009
Gross loss	(401)	(146)
Selling, general and administrative expenses	1,909	2,582
Research and development expense	327	352
Provision (recovery) for bad debt expense	425	(43)
Operating loss	(3,062)	(3,037)
Interest (expense) income, net	(11)	4
Foreign currency transaction (loss) gain	(88)	480
Loss from continuing operations before income tax (benefit) expense	(3,161)	(2,553)
Income tax (benefit) expense from continuing operations	(214)	53
Net loss from continuing operations	\$(2,947)	\$(2,606)
Discontinued operations:		
Income tax benefit from discontinued operations	—	—
Net earnings from discontinued operations	—	—
Net loss	(2,947)	(2,606)
Other comprehensive loss:		
Foreign currency translation (net of tax effect of \$193 and \$0, respectively)	397	(1,521)
Other comprehensive loss	397	(1,521)
Comprehensive loss	\$(2,550)	\$(4,127)
Net loss per share (Note 4):		
Basic from continuing operations	\$(0.16)	\$(0.14)
Basic from discontinued operations	—	—
Basic	\$(0.16)	\$(0.14)
Diluted from continuing operations	\$(0.16)	\$(0.14)
Diluted from discontinued operations	—	—
Diluted	\$(0.16)	\$(0.14)
Weighted-average shares outstanding (Note 4):		
Basic	18,265,845	18,070,384
Diluted	18,265,845	18,070,384

See accompanying notes to these condensed consolidated financial statements.





**STR Holdings, Inc. and Subsidiaries****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)****All amounts in thousands**

	Three Months Ended March 31,	
	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net loss	\$(2,947)	\$(2,606)
Net earnings from discontinued operations	—	—
Net loss from continuing operations	(2,947)	(2,606)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	474	490
Stock-based compensation expense	159	153
Provision (recovery) for bad debt expense	425	(43)
Provision for deferred taxes	(214)	—
Changes in operating assets and liabilities:		
Accounts receivable	(556)	(1,358)
Due from Zhenfa	—	—
Inventories, net	1,360	353
Other current assets	(1,055)	(827)
Accounts payable	257	1,105
Accrued liabilities	93	(197)
Income taxes payable	5	3
Other, net	(92)	1,255
Net cash used in continuing operations	(2,091)	(1,672)
Net cash provided by discontinued operations	—	9
Total net cash used in operating activities	(2,091)	(1,663)
<b>INVESTING ACTIVITIES</b>		
Capital investments	(9)	(1,392)
Net cash used in continuing operations	(9)	(1,392)
Net cash used in discontinued operations	—	—
Total net cash used in investing activities	(9)	(1,392)
<b>FINANCING ACTIVITIES</b>		
Special dividend	—	(20)
Shared services arrangement with Zhenfa	28	—
Factoring arrangement	908	—
Common stock issued under employee stock purchase plan	—	1
Net cash provided by (used in) continuing operations	936	(19)
Net cash used in discontinued operations	—	—
Total net cash provided by (used in) financing activities	936	(19)

Edgar Filing: STR HOLDINGS, INC. - Form 10-Q

Effect of exchange rate changes on cash	92	(210 )
Net change in cash and cash equivalents	(1,072)	(3,284 )
Cash and cash equivalents, beginning of period	7,703	16,552
Cash and cash equivalents, end of period	\$6,631	\$13,268

See accompanying notes to these condensed consolidated financial statements.

**STR Holdings, Inc. and Subsidiaries**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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

**NOTE 1—BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements and the related interim information contained within the notes to the condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the applicable rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information and quarterly reports on the Form 10-Q. Accordingly, they do not include all of the information and the notes required for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015, included in STR Holdings, Inc.’s (the “Company”) Annual Report on Form 10-K filed with the SEC on March 22, 2016. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, and in the opinion of management, reflect all adjustments, consisting of only normal and recurring adjustments, necessary for the fair presentation of the Company’s financial position, results of operations and cash flows for the interim periods presented. The results for the interim periods presented are not necessarily indicative of future results.

The year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

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 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 the Company’s common stock was reduced to 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 condensed consolidated financial statements and accompanying notes.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management’s estimates.

**NOTE 2—RECENT ACCOUNTING PRONOUNCEMENTS**

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The objective of this update is to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements.

**NOTE 3—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 affiliate, Zhen Fa New Energy (U.S.) Co., Ltd., a Nevada corporation ("Zhenfa U.S.").

***Purchase Agreement and Special Dividend***

On August 11, 2014, the Company entered into a Stock Purchase Agreement (the "Purchase Agreement") with Zhenfa U.S., pursuant to which the Company agreed to issue and sell to Zhenfa U.S., and Zhenfa U.S. agreed to purchase from the Company, an aggregate of 9,210,710 shares (the "Purchased Shares") of its authorized but unissued common stock, par value \$0.01 per share, for an aggregate purchase price of approximately \$21,664 (the "Purchase Price"), or \$2.35 per share (the "Transaction"). 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 (the "Closing Date").

**STR Holdings, Inc. and Subsidiaries**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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

**NOTE 3—TRANSACTION WITH ZHEN FA NEW ENERGY (U.S.) CO., LTD. AND ZHENFA ENERGY GROUP CO., LTD. (Continued)**

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 Zhenfa U.S.) in an amount equal to \$2.55 per common share on January 2, 2015.

The Company also entered into a guarantee agreement (the “Guarantee Agreement”) with Zhenfa pursuant to which Zhenfa agreed to guarantee all obligations of Zhenfa U.S. under the Purchase Agreement, including but not limited to, the payment of the Purchase Price and the performance of all covenants and agreements of Zhenfa U.S in the Purchase Agreement.

In connection with the closing of the Transaction, 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 Zhenfa U.S.) in an amount equal to \$2.55 per common share on January 2, 2015.

***Sales Service Agreement***

In connection with the execution of the Purchase Agreement, Specialized Technology Resources, Inc., an operating subsidiary of the Company, entered into a 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 the Company’s products in China, acquiring local raw materials, hiring and training personnel in China, and complying with Chinese law. The Sales Service Agreement also provides the Company an option to lease a Zhenfa-owned manufacturing facility rent free for a period of five years, extendable by an additional five years at 50% of the then-current market rental rate. The Company has not exercised this option as of March 31, 2016. The Sales Service Agreement became effective on the Closing Date, has an initial term of two years following the Closing Date 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.



## STR Holdings, Inc. and Subsidiaries

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

## NOTE 4—LOSS PER SHARE

The calculation of basic and diluted net loss per share for the periods presented is as follows:

	Three Months Ended March 31,	
	2016	2015
Basic and diluted net loss per share		
Numerator:		
Net loss from continuing operations	\$(2,947 )	\$(2,606 )
Net earnings from discontinued operations	—	—
Net loss	\$(2,947 )	\$(2,606 )
Denominator:		
Weighted-average shares outstanding	18,265,845	18,070,384
Add:		
Dilutive effect of stock options	—	—
Dilutive effect of restricted common stock	—	—
Weighted-average shares outstanding with dilution	18,265,845	18,070,384
Net loss per share:		
Basic from continuing operations	\$(0.16 )	\$(0.14 )
Basic from discontinued operations	—	—
Basic	\$(0.16 )	\$(0.14 )
Diluted from continuing operations	\$(0.16 )	\$(0.14 )
Diluted from discontinued operations	—	—
Diluted	\$(0.16 )	\$(0.14 )

Due to the loss from continuing operations for the three months ended March 31, 2016 and 2015, the computation of dilutive weighted-average common shares outstanding does not include 0 and 70,522 stock options, respectively 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 12 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 three months ended March 31, 2015. As of

October 1, 2015, the Company terminated the ESPP.

Because the effect would be anti-dilutive, there were 0 and 1,964,665 stock options outstanding that were not included in the computation of diluted weighted-average shares outstanding for the three months ended March 31, 2016 and 2015, respectively.

#### **NOTE 5—BANK ACCEPTANCE NOTES**

Customers in China may settle their amounts owed to the Company with bank acceptance notes. Bank acceptance notes are draft instruments that are guaranteed to be paid at maturity by the respective bank. Upon receipt of the bank acceptance note, the Company can elect to hold the instrument until maturity and receive full face value, discount it with the bank for a fee, or transfer it at full face value to suppliers who will accept the note as settlement of the Company's accounts payable balance with them.

Bank acceptance notes consists of the following:

	March 31, 2016	December 31, 2015
Balance as of beginning of period	\$92	\$—
Received from customers	341	5,874
Converted to cash	—	(1,566 )
Paid to suppliers	(279)	(4,216 )
Foreign exchange impact	1	—
Balance as of end of period	\$155	\$92