

Pattern Energy Group Inc.  
Form 10-Q  
August 05, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2014.**

**or**

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

**Commission File Number 001-36087**

**PATTERN ENERGY GROUP INC.**

**(Exact name of Registrant as specified in its charter)**

**Delaware** **90-0893251**  
**(State or other jurisdiction of** **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**Pier 1, Bay 3, San Francisco, CA 94111**  
**(Address of principal executive offices) (Zip Code)**  
**Registrant's telephone number, including area code: (415) 283-4000**

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

As of July 28, 2014, there were 46,511,899 shares of Class A common stock outstanding, \$0.01 par value, and 15,555,000 shares of Class B common stock outstanding, \$0.01 par value.

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**PATTERN ENERGY GROUP INC.**  
**REPORT ON FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014**  
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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements and information in this Quarterly Report on Form 10-Q ( Form 10-Q ) may constitute forward-looking statements. The words believe, expect, anticipate, plan, intend, foresee, should, would, similar expressions are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

our ability to complete construction of our construction projects and transition them into financially successful operating projects;

our ability to complete the acquisition of power projects;

fluctuations in supply, demand, prices and other conditions for electricity, other commodities and RECs;

our electricity generation, our projections thereof and factors affecting production, including wind and other conditions, other weather conditions, availability and curtailment;

changes in law, including applicable tax laws;

public response to and changes in the local, state, provincial and federal regulatory framework affecting renewable energy projects, including the potential expiration or extension of the U.S. federal PTC, ITC, and the related U.S. Treasury grants and potential reductions in RPS requirements;

the ability of our counterparties to satisfy their financial commitments or business obligations;

the availability of financing, including tax equity financing, for our wind power projects;

an increase in interest rates;

our substantial short-term and long-term indebtedness, including additional debt in the future;

competition from other power project developers;

our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups ( JOBS ) Act;

development constraints, including the availability of interconnection and transmission;

potential environmental liabilities and the cost and conditions of compliance with applicable environmental laws and regulations;

our ability to operate our business efficiently, manage capital expenditures and costs effectively and generate cash flow;

our ability to retain and attract executive officers and key employees;

our ability to keep pace with and take advantage of new technologies;

the effects of litigation, including administrative and other proceedings or investigations, relating to our wind power projects under construction and those in operation;

conditions in energy markets as well as financial markets generally, which will be affected by interest rates, currency exchange rate fluctuations and general economic conditions;

the effective life and cost of maintenance of our wind turbines and other equipment;

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the increased costs of, and tariffs on, spare parts;

scarcity of necessary equipment;

negative public or community response to wind power projects;

the value of collateral in the event of liquidation; and

other factors discussed under Risk Factors.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see Part II, Item 1A. Risk Factors in this report and our Annual Report on Form 10-K for the year ended December 31, 2013.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Pattern Energy Group Inc.****Consolidated Balance Sheets****(In thousands of U.S. Dollars, except share data)****(Unaudited)**

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 234,038	\$ 103,569
Trade receivables	40,620	20,951
Related party receivable	759	167
Reimbursable interconnection costs	38	1,455
Derivative assets, current	12,449	13,937
Current deferred tax assets	573	573
Prepaid expenses and other current assets	10,913	13,927
Total current assets	299,390	154,579
Restricted cash	44,387	32,636
Property, plant and equipment, net of accumulated depreciation of \$223,144 and \$179,778 as of June 30, 2014 and December 31, 2013, respectively	2,105,937	1,476,142
Unconsolidated investments	65,353	107,055
Derivative assets	54,808	82,167
Deferred financing costs, net of accumulated amortization of \$19,059 and \$16,225 as of June 30, 2014 and December 31, 2013, respectively	33,533	35,792
Net deferred tax assets	6,889	2,017
Other assets	13,673	13,243
Total assets	\$ 2,623,970	\$ 1,903,631
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 23,523	\$ 15,550
Accrued construction costs	21,670	3,204
Related party payable	918	1,245
Accrued interest	2,273	495
Dividend payable	15,071	11,103
Derivative liabilities, current	17,804	16,171
Current portion of long-term debt	58,896	48,851
Total current liabilities	140,155	96,619

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Long-term debt	1,377,159	1,200,367
Derivative liabilities	11,846	7,439
Asset retirement obligations	26,394	20,834
Net deferred tax liabilities	22,523	9,930
Other long-term liabilities	2,059	438
<b>Total liabilities</b>	<b>1,580,136</b>	<b>1,335,627</b>
<b>Equity:</b>		
Class A common stock, \$0.01 par value per share: 500,000,000 shares authorized; 46,525,818 and 35,531,720 shares issued as of June 30, 2014 and December 31, 2013, respectively; 46,522,980 and 35,530,786 shares outstanding as of June 30, 2014 and December 31, 2013, respectively	465	355
Class B common stock, \$0.01 par value per share: 20,000,000 shares authorized; 15,555,000 shares issued and outstanding as of June 30, 2014 and December 31, 2013	156	156
Additional paid-in capital	752,501	489,412
Accumulated loss	(17,026)	(13,336)
Accumulated other comprehensive loss	(24,795)	(8,353)
Treasury stock, at cost; 2,838 and 934 shares of Class A common stock as of June 30, 2014 and December 31, 2013, respectively	(79)	(24)
<b>Total equity before noncontrolling interest</b>	<b>711,222</b>	<b>468,210</b>
<b>Noncontrolling interest</b>	<b>332,612</b>	<b>99,794</b>
<b>Total equity</b>	<b>1,043,834</b>	<b>568,004</b>
<b>Total liabilities and equity</b>	<b>\$ 2,623,970</b>	<b>\$ 1,903,631</b>

*See accompanying notes to consolidated financial statements.*



**Table of Contents****Pattern Energy Group Inc.****Consolidated Statements of Operations****(In thousands of U.S. Dollars, except share data)****(Unaudited)**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenue:</b>				
Electricity sales	\$ 66,053	\$ 47,351	\$ 119,924	\$ 92,583
Energy derivative settlements	3,983	4,809	6,718	10,217
Unrealized loss on energy derivative	(6,549)	(5,078)	(14,282)	(11,881)
Related party revenue	1,017	263	1,462	263
Other revenue	503	11,367	734	11,367
<b>Total revenue</b>	<b>65,007</b>	<b>58,712</b>	<b>114,556</b>	<b>102,549</b>
<b>Cost of revenue:</b>				
Project expense	16,700	14,492	32,774	27,469
Depreciation and accretion	21,284	17,998	42,461	40,564
<b>Total cost of revenue</b>	<b>37,984</b>	<b>32,490</b>	<b>75,235</b>	<b>68,033</b>
<b>Gross profit</b>	<b>27,023</b>	<b>26,222</b>	<b>39,321</b>	<b>34,516</b>
<b>Operating expenses:</b>				
General and administrative	6,288	205	10,191	349
Related party general and administrative	1,383	2,699	2,663	5,361
<b>Total operating expenses</b>	<b>7,671</b>	<b>2,904</b>	<b>12,854</b>	<b>5,710</b>
<b>Operating income</b>	<b>19,352</b>	<b>23,318</b>	<b>26,467</b>	<b>28,806</b>
<b>Other income (expense):</b>				
Interest expense	(15,807)	(16,832)	(30,428)	(33,474)
Equity in (losses) earnings in unconsolidated investments	(3,688)	13,368	(16,236)	3,343
Interest rate derivative settlements	(1,035)		(2,052)	
Unrealized (loss) gain on derivatives	(2,942)	8,202	(6,665)	10,133
Related party income	376		1,072	
Net gain on transactions	14,537	7,200	14,537	7,200
Other income, net	439	1,044	606	1,802
<b>Total other (expense) income</b>	<b>(8,120)</b>	<b>12,982</b>	<b>(39,166)</b>	<b>(10,996)</b>

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Net income (loss) before income tax	11,232	36,300	(12,699)	17,810
Tax provision (benefit)	4,065	(7,688)	2,033	(7,394)
Net income (loss)	7,167	43,988	(14,732)	25,204
Net loss attributable to noncontrolling interest	(4,032)	(359)	(11,042)	(3,938)
Net income (loss) attributable to controlling interest	\$ 11,199	\$ 44,347	\$ (3,690)	\$ 29,142

**Weighted average number of shares:**

Class A common stock - Basic	41,174,697	38,331,595
Class A common stock - Diluted	57,065,219	54,214,953
Class B common stock - Basic and diluted	15,555,000	15,555,000

**Earnings (loss) per share**

Class A common stock:			
Basic earnings per share	\$ 0.30	\$ 0.13	
Diluted earnings (loss) per share	\$ 0.20	\$ (0.07)	
Class B common stock:			
Basic and diluted loss per share	\$ (0.07)	\$ (0.55)	
Cash dividends declared per Class A common share	\$ 0.32	\$ 0.63	

**2013 pro forma information:**

<i>Unaudited pro forma net income after tax:</i>	
<i>Net income before income tax</i>	\$ 17,810
<i>Pro forma tax provision</i>	674
<i>Pro forma net income</i>	\$ 17,136

*See accompanying notes to consolidated financial statements.*

**Table of Contents****Pattern Energy Group Inc.****Consolidated Statements of Comprehensive Loss****(In thousands of U.S. Dollars)****(Unaudited)**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income (loss)	\$ 7,167	\$ 43,988	\$ (14,732)	\$ 25,204
Other comprehensive (loss) income:				
Foreign currency translation, net of tax impact of \$0, \$0, \$0 and \$0, respectively	4,221	(3,836)	(869)	(7,327)
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit of \$29, \$0, \$29 and \$0, respectively	(2,161)	23,021	(4,912)	30,946
Reclassifications to net income (loss), net of tax impact of \$0, \$0, \$0 and \$0, respectively	(3,386)	(2,754)	(6,557)	(5,359)
Total change in effective portion of change in fair market value of derivatives	(5,547)	20,267	(11,469)	25,587
Proportionate share of equity investee's other comprehensive (loss) income activity, net of tax benefit (provision) of \$560, (\$315), \$1,805 and (\$334), respectively	(1,205)	1,258	(4,283)	1,601
Total other comprehensive (loss) income, net of tax	(2,531)	17,689	(16,621)	19,861
Comprehensive income (loss)	4,636	61,677	(31,353)	45,065
Less comprehensive (loss) income attributable to noncontrolling interest:				
Net loss attributable to noncontrolling interest	(4,032)	(359)	(11,042)	(3,938)
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax impact of \$0, \$0, \$0 and \$0, respectively	614	3,333	1,537	4,524
Reclassifications to net loss, net of tax impact of \$0, \$0, \$0 and \$0, respectively	(887)	(487)	(1,716)	(948)
Total change in effective portion of change in fair market value of derivatives	(273)	2,846	(179)	3,576
Comprehensive (loss) income attributable to noncontrolling interest	(4,305)	2,487	(11,221)	(362)

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Comprehensive income (loss) attributable to controlling interest	\$ 8,941	\$ 59,190	\$ (20,132)	\$ 45,427
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*See accompanying notes to consolidated financial statements.*

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## Pattern Energy Group Inc.

## Consolidated Statements of Stockholders' Equity

(In thousands of U.S. Dollars, except share data)

(Unaudited)

Common Stock	Controlling Interest					Noncontrolling Interest						
	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Income	Accumulated Other Comprehensive Income	Total	Capital	Accumulated Income	Accumulated Other Comprehensive Income		
100	\$		\$	\$	1	\$ 545,471	\$ 2,903	\$ (34,264)	\$ 514,111	\$ 74,177	\$ 12,366	\$ (11,242)
						32,677			32,677			
						(104,634)			(104,634)	(1,426)		
					2							
							30,295		30,295		(690)	
								20,633	20,633			3,559
100					3	473,514	33,198	(13,631)	493,084	72,751	11,676	(7,683)
						(18,332)	(13,122)	2,870	(28,584)	18,332	13,122	(2,870)
						(4,207)			(4,207)			
5,000	194	15,555,000	156	470,701	(450,975)	(20,076)			(232,640)			
						(232,640)			(232,640)			

0,000	160			316,882				317,042			
3,183	1			155				156			
3,437				93				93			
(934)				(24)				(24)			
				263				263			
				(11,103)				(11,103)			
				(54,942)		(2,910)		(57,852)			
									(866)		
						(13,336)		(13,336)		(6,197)	
							5,318	5,318			1,529
0,786	\$ 355	15,555,000	\$ 156	\$ 489,388	\$	\$(13,336)	\$ (8,353)	\$ 468,210	\$ 90,217	\$ 18,601	\$ (9,024)
0,810	108			286,671				286,779			
3,287	2			1,868				1,870			

0,001	220	220
1,904)	(55)	(55)
	305	