

Pattern Energy Group Inc.
Form 10-Q
November 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015.

or

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

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 October 30, 2015, there were 74,671,950 shares of Class A common stock outstanding with par value of \$0.01 per share.

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 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015
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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,” “could,” and “may” and 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 production tax credit (“PTC”), investment tax credit (“ITC”) and potential reductions in Renewable Portfolio Standards (“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 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;
- 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, foreign currency exchange rate fluctuations and general economic conditions;
- the effectiveness of our currency risk management program;
- the effective life and cost of maintenance of our wind turbines and other equipment;
- 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.”

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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 Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015 and June 30, 2015 and Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014.

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.

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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)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$103,196	\$101,656
Restricted cash	18,111	7,945
Trade receivables	37,540	35,759
Related party receivable	689	671
Reimbursable interconnection costs	663	2,532
Derivative assets, current	21,912	18,506
Current net deferred tax assets	307	318
Prepaid expenses and other current assets	23,595	27,954
Deferred financing costs, current, net of accumulated amortization of \$4,699 and \$3,493 as of September 30, 2015 and December 31, 2014, respectively	1,991	1,747
Total current assets	208,004	197,088
Restricted cash	34,196	39,745
Turbine advances	25,956	79,637
Construction in progress	180,115	26,195
Property, plant and equipment, net of accumulated depreciation of \$370,713 and \$278,291 as of September 30, 2015 and December 31, 2014, respectively	3,066,461	2,350,856
Unconsolidated investments	115,177	29,079
Derivative assets	47,033	49,369
Deferred financing costs	4,926	5,166
Net deferred tax assets	12,112	5,474
Finite-lived intangible assets, net of accumulated amortization of \$2,761 and \$154 as of September 30, 2015 and December 31, 2014, respectively	99,398	1,257
Other assets	27,906	11,421
Total assets	\$3,821,284	\$2,795,287
Liabilities and equity		
Current liabilities:		
Accounts payable and other accrued liabilities	\$36,107	\$24,793
Accrued construction costs	43,610	20,132
Related party payable	1,312	5,757
Accrued interest	6,598	3,634
Dividends payable	27,384	15,734
Derivative liabilities, current	16,360	16,307
Revolving credit facility	245,000	50,000
Current portion of long-term debt, net of financing costs of \$5,082 and \$11,868 as of September 30, 2015 and December 31, 2014, respectively	202,580	109,693
Current net deferred tax liabilities	149	149
Current portion of contingent liabilities	8,910	4,000

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Total current liabilities	588,010	250,199
Long-term debt, net of financing costs of \$19,959 and \$24,887 as of September 30, 2015 and December 31, 2014, respectively	1,204,848	1,304,165
Convertible senior notes, net of financing costs of \$5,271 and \$0 as of September 30, 2015 and December 31, 2014, respectively	196,191	—
Derivative liabilities	33,203	17,467
Asset retirement obligations	41,553	29,272
Net deferred tax liabilities	24,140	20,418
Contingent liabilities	1,070	175
Finite-lived intangible liability, net of accumulated amortization of \$1,301 and \$0 as of September 30, 2015 and December 31, 2014, respectively	58,999	—
Other long-term liabilities	8,757	8,857
Total liabilities	2,156,771	1,630,553
Equity:		
Class A common stock, \$0.01 par value per share: 500,000,000 shares authorized; 74,671,950 and 62,062,841 shares outstanding as of September 30, 2015 and December 31, 2014, respectively	747	621
Additional paid-in capital	1,009,381	723,938
Accumulated loss	(79,613	) (44,626)
Accumulated other comprehensive loss	(75,666	) (45,068)
Treasury stock, at cost; 37,492 and 25,465 shares of Class A common stock as of September 30, 2015 and December 31, 2014, respectively	(1,048	) (717)
Total equity before noncontrolling interest	853,801	634,148
Noncontrolling interest	810,712	530,586
Total equity	1,664,513	1,164,734
Total liabilities and equity	\$3,821,284	\$2,795,287

See accompanying notes to consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue:				
Electricity sales	\$80,657	\$64,251	\$218,586	\$184,175
Energy derivative settlements	2,969	2,591	15,066	9,309
Unrealized gain (loss) on energy derivative	4,630	3,139	1,600	(11,143)
Related party revenue	955	868	2,630	2,330
Other revenue	486	670	1,352	1,404
Total revenue	89,697	71,519	239,234	186,075
Cost of revenue:				
Project expense	28,848	23,835	82,075	56,609
Depreciation and accretion	38,599	30,015	101,997	72,476
Total cost of revenue	67,447	53,850	184,072	129,085
Gross profit	22,250	17,669	55,162	56,990
Operating expenses:				
General and administrative	7,218	5,772	22,309	15,963
Related party general and administrative	1,887	1,492	5,316	4,155
Total operating expenses	9,105	7,264	27,625	20,118
Operating income	13,145	10,405	27,537	36,872
Other expense:				
Interest expense	(19,941)	(17,999)	(56,802)	(48,427)
Interest rate derivative settlements	(2,412)	(1,030)	(4,331)	(3,082)
Unrealized (loss) gain on derivatives, net	(5,090)	66	(2,393)	(6,599)
Realized loss on derivatives, net	(9,810)	—	(9,810)	—
Equity in (losses) earnings in unconsolidated investments	(9,951)	(5,002)	768	(21,238)
Related party income	605	664	2,029	1,736
Early extinguishment of debt	(4,113)	—	(4,113)	—
Net (loss) gain on transactions	(74)	(68)	(2,663)	14,469
Other income (expense), net	128	145	(1,280)	751
Total other expense	(50,658)	(23,224)	(78,595)	(62,390)
Net loss before income tax	(37,513)	(12,819)	(51,058)	(25,518)
Tax (benefit) provision	(2,181)	(3,538)	676	(1,505)
Net loss	(35,332)	(9,281)	(51,734)	(24,013)
Net loss attributable to noncontrolling interest	(5,927)	(2,073)	(16,747)	(13,115)
Net loss attributable to controlling interest	\$(29,405)	\$(7,208)	\$(34,987)	\$(10,898)
Loss per share information:				
Net loss attributable to controlling interest	\$(29,405)	\$(7,208)	\$(34,987)	\$(10,898)
Dividends declared on Class A common shares	(27,113)	(15,258)	(75,117)	(41,395)
Deemed dividends on Class B common shares	N/A	(7,222)	N/A	(14,679)
Undistributed loss attributable to common stockholders	\$(56,518)	\$(29,688)	\$(110,104)	\$(66,972)

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Weighted average number of shares:

Class A common stock - Basic	72,789,583	46,317,932	69,233,698	41,022,962
Class A common stock - Diluted	72,789,583	46,317,932	69,233,698	56,577,962
Class B common stock - Basic and diluted	N/A	15,555,000	N/A	15,555,000

Loss per share

Class A common stock:

Basic loss per share	\$(0.40)	) \$(0.15)	) \$(0.51)	) \$(0.17))
Diluted loss per share	\$(0.40)	) \$(0.15)	) \$(0.51)	) \$(0.19))

Class B common stock:

Basic and diluted loss per share	N/A	) \$(0.02)	) N/A	) \$(0.24))
Dividends declared per Class A common share	\$0.36	\$0.33	\$1.06	\$0.96	
Deemed dividends per Class B common share	N/A	\$0.46	N/A	\$0.94	

See accompanying notes to consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net loss	\$(35,332	) \$(9,281	) \$(51,734	) \$(24,013
Other comprehensive loss:				
Foreign currency translation, net of zero tax impact	(12,208	) (5,706	) (21,900	) (6,575
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit of \$892, \$132, \$948 and \$198, respectively	(15,600	) (1,960	) (16,257	) (19,986
Reclassifications to net loss due to termination of interest rate derivatives, net of zero tax impact	11,221	—	11,221	—
Reclassifications to net loss, net of tax impact of \$170, \$132, \$511 and \$169, respectively	2,590	3,658	9,546	10,215
Total change in effective portion of change in fair market value of derivatives	(1,789	) 1,698	4,510	(9,771
Proportionate share of equity investee's derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit of \$1,627, \$109, \$2,486, and \$1,914, respectively	(4,513	) (275	) (6,895	) (4,558
Reclassifications to net loss, net of tax impact of \$194, \$0, \$571, and \$0, respectively	537	—	1,582	—
Total change in effective portion of change in fair market value of derivatives	(3,976	) (275	) (5,313	) (4,558
Total other comprehensive loss, net of tax	(17,973	) (4,283	) (22,703	) (20,904
Comprehensive loss	(53,305	) (13,564	) (74,437	) (44,917
Less comprehensive loss attributable to noncontrolling interest:				
Net loss attributable to noncontrolling interest	(5,927	) (2,073	) (16,747	) (13,115
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit of \$268, \$40, \$285 and \$60, respectively	(1,023	) 330	(2,008	) (1,565
Reclassifications to net loss, net of tax impact of \$51, \$40, \$153 and \$51, respectively	138	959	1,959	2,675
Total change in effective portion of change in fair market value of derivatives	(885	) 1,289	(49	) 1,110
Comprehensive loss attributable to noncontrolling interest	(6,812	) (784	) (16,796	) (12,005
Comprehensive loss attributable to controlling interest	\$(46,493) \$(12,780) \$(57,641) \$(32,912

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)

	Controlling Interest Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Loss	Other Comprehensive Loss	Treasury Stock		Total	Noncon- tractual Capital
	Shares	Amount	Shares	Amount				Shares	Amount		
Balances at December 31, 2013	35,531,720	\$355	15,555,000	\$156	\$489,412	\$(13,336)	\$(8,353)	(934)	\$(24)	\$468,210	\$90,217
Issuance of Class A common stock related to the public offering, net of issuance costs	10,810,810	108	—	—	286,711	—	—	—	—	286,819	—
Issuances of Class A common stock under equity incentive award plan	175,915	2	—	—	(2)	—	—	—	—	—	—
Issuance of Class A common stock upon exercise of stock options	12,431	—	—	—	273	—	—	—	—	273	—
Repurchase of shares for employee tax withholding	—	—	—	—	—	—	—	(11,780)	(380)	(380)	—
Stock-based compensation	—	—	—	—	3,128	—	—	—	—	3,128	—
Refund of issuance costs related to the IPO	—	—	—	—	163	—	—	—	—	163	—
Dividends declared on Class A common stock	—	—	—	—	(41,395)	—	—	—	—	(41,395)	—
Recognition of beneficial	—	—	—	—	(21,901)	—	—	—	—	(21,901)	—

conversion feature on Class B convertible common stock												
Adjustment to paid-in capital for beneficial conversion feature recognition	—	—	—	—	21,901	—	—	—	—	—	21,901	—
Accretion of the Class B common stock beneficial conversion feature	—	—	—	—	14,679	—	—	—	—	—	14,679	—
Deemed dividends on Class B convertible common stock	—	—	—	—	(14,679)	—	—	—	—	—	(14,679)	—
Sale of Class A membership interests in Panhandle 1	—	—	—	—	—	—	—	—	—	—	—	210,250
Acquisition of AEI ownership in E1 Arrayan Contribution from noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	35,259
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	(1,470)
Net loss	—	—	—	—	—	(10,898)	—	—	—	—	(10,898)	—
Other comprehensive (loss) income, net of tax	—	—	—	—	—	—	(22,014)	—	—	—	(22,014)	—
Balances at September 30, 2014	46,530,876	\$465	15,555,000	\$156	\$738,290	\$(24,234)	\$(30,367)	(12,714)	\$(404)	\$683,906	\$336,806	

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)

	Controlling Interest					Treasury Stock			Noncontrolling Interest	
	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Accumulated Loss	Accumulated Other Comprehensive Loss	Shares	Amount	Total	Capital	Accumulated Income (Loss)
Balances at December 31, 2014	62,088,306	\$621	\$723,938	\$(44,626)	\$(45,068)	(25,465)	\$(717)	\$634,148	\$529,539	\$9,892
Issuance of Class A common stock related to the public offering, net of issuance costs	12,435,000	124	316,848	—	—	—	—	316,972	—	—
Issuance of Class A common stock under equity incentive award plan	186,136	2	(2)	—	—	—	—	—	—	—
Repurchase of shares for employee tax withholding	—	—	—	—	—	(12,027)	(331)	(331)	—	—
Stock-based compensation	—	—	3,234	—	—	—	—	3,234	—	—
Dividends declared on Class A common stock	—	—	(75,117)	—	—	—	—	(75,117)	—	—
Dividend equivalents declared upon vesting of deferred restricted stock units	—	—	11	—	—	—	—	11	—	—
Acquisition of Post Rock	—	—	—	—	—	—	—	—	205,100	—
Conversion option of	—	—	23,754	—	—	—	—	23,754	—	—

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convertible
senior notes,
net of issuance
costs

Buyout of
noncontrolling
interests - Gulf
Wind

Wind

Buyout of
noncontrolling
interest - Lost
Creek

Contribution
from
noncontrolling
interests -

Logan's Gap,
net of issuance
costs

Distribution to
noncontrolling
interests

Net loss

Other
comprehensive
loss, net of tax

Balances at

September 30, 2015 74,709,442 \$747 -\$ \$1,009,381 \$(79,613) \$(75,666) (37,492) \$(1,048) \$853,801 \$832,761 \$(21,099)

See accompanying notes to consolidated financial statements

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Pattern Energy Group Inc.
 Consolidated Statements of Cash Flows
 (In thousands of U.S. Dollars)
 (Unaudited)

	Nine months ended September 30,	
	2015	2014
Operating activities		
Net loss	\$(51,734	) \$(24,013
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	102,108	72,476
Loss on disposal of equipment	398	—
Amortization of financing costs	5,581	4,246
Unrealized loss on derivatives, net	793	17,742
Stock-based compensation	3,234	3,128
Net gain on transactions	—	(16,526
Deferred taxes	340	(1,505
Equity in (earnings) losses in unconsolidated investments	(813	) 21,238
Unrealized loss on exchange rate changes	823	—
Amortization of power purchase agreements, net	1,175	—
Amortization of debt discount/premium, net	798	—
Realized loss on derivatives, net	10,192	—
Early extinguishment of debt	3,958	—
Changes in operating assets and liabilities:		
Trade receivables	5,657	(5,255
Prepaid expenses and other current assets	(2,589	) 13,139
Other assets (non-current)	(2,022	) (503
Accounts payable and other accrued liabilities	4,180	1,642
Related party receivable/payable	506	(1,017
Accrued interest payable	1,970	(917
Contingent liabilities	764	—
Long-term liabilities	83	25
Increase in restricted cash	(2,120)