

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

FORM 10-Q/A
(Amendment No. 1)

(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, 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 April 28, 2014, there were 35,703,134 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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EXPLANATORY NOTE

Pattern Energy Group Inc. (the Company) is filing this Amendment No. 1 on Form 10-Q/A (the Form 10-Q/A) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed with the U.S. Securities and Exchange Commission on May 2, 2014 (the Original Form 10-Q) to correct errors in the computation and disclosure of Class A diluted earnings per share for the three months ended March 31, 2014. The previously reported calculation did not correctly consider that upon the commercial operation date of South Kent on March 28, 2014, the if-converted method of calculating diluted earnings per share would result in a more dilutive result than the previously applied two-class method. The more dilutive result of these methods should have been reported on the Company's consolidated statement of operations.

Specifically, this Form 10-Q/A amends and restates Item 1 of Part I of the Original Form 10-Q so that the Consolidated Statements of Operations for the Three Months Ended March 31, 2014 and 2013 (unaudited) correctly state that (a) diluted loss per share of Class A common stock for the quarter ended March 31, 2014 was \$(0.29), and (b) the diluted weighted average number of shares of Class A common stock outstanding for the quarter ended March 31, 2014 was 51,421,931 (see Note 14 to the financial statements). In addition, this Form 10-Q/A amends and restates (i) Item 4 of Part I of the Original Form 10-Q to include a description of the material weakness in internal controls in connection with the restatement and (ii) Item 6 of Part II of the Original Form 10-Q to indicate that we are filing the financial statements included in this Form 10-Q/A, formatted in eXtensible Business Reporting Language (XBRL).

The corrections to diluted earnings per share of Class A common stock have no impact on the Company's unaudited consolidated balance sheets as of March 31, 2014, consolidated statements of comprehensive loss, including net loss, for the three months ended March 31, 2014, consolidated statement of stockholders' equity as of March 31, 2014, or the statements of cash flows for the three months ended March 31, 2014.

Except as specifically noted above, the remainder of the Original Form 10-Q is unchanged and is not reproduced in this Form 10-Q/A. In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our principal executive officer and principal financial officer are filed as exhibits hereto.

This Form 10-Q/A should be read in conjunction with the Original Form 10-Q, which continues to speak as of the date of the Original Form 10-Q. Except as specifically noted above, this Form 10-Q/A does not modify or update disclosures in the Original Form 10-Q. Accordingly, this Form 10-Q/A does not reflect events occurring after the filing of the Original Form 10-Q or modify or update any related or other disclosures.

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**PATTERN ENERGY GROUP INC.
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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014
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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)**

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 100,343	\$ 103,569
Trade receivables	27,114	20,951
Related party receivable	380	167
Reimbursable interconnection costs	38	1,455
Derivative assets, current	11,906	13,937
Current deferred tax assets	573	573
Prepaid expenses and other current assets	9,878	13,927
Total current assets	150,232	154,579
Restricted cash	35,375	32,636
Property, plant and equipment, net of accumulated depreciation of \$198,967 and \$179,778 as of March 31, 2014 and December 31, 2013, respectively	1,444,554	1,476,142
Unconsolidated investments	88,546	107,055
Derivative assets	66,935	82,167
Deferred financing costs, net of accumulated amortization of \$17,570 and \$16,225 as of March 31, 2014 and December 31, 2013, respectively	34,911	35,792
Net deferred tax assets	1,656	2,017
Other assets	12,741	13,243
Total assets	\$ 1,834,950	\$ 1,903,631
Liabilities and equity		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 10,329	\$ 15,550
Accrued construction costs	3,007	3,204
Related party payable	1,175	1,245
Accrued interest	1,336	495
Dividend payable	11,179	11,103
Derivative liabilities, current	16,205	16,171

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Current portion of long-term debt	48,615	48,851
Total current liabilities	91,846	96,619
Long-term debt	1,186,473	1,200,367
Derivative liabilities	7,520	7,439
Asset retirement obligations	21,082	20,834
Net deferred tax liabilities	6,101	9,930
Other long-term liabilities	438	438
Total liabilities	1,313,460	1,335,627
Equity:		
Class A common stock, \$0.01 par value per share: 500,000,000 shares authorized; 35,703,134 and 35,530,786 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	357	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 March 31, 2014 and December 31, 2013	156	156
Additional paid-in capital	478,861	489,388
Accumulated loss	(28,225)	(13,336)
Accumulated other comprehensive loss	(22,537)	(8,353)
Total equity before noncontrolling interest	428,612	468,210
Noncontrolling interest	92,878	99,794
Total equity	521,490	568,004
Total liabilities and equity	\$ 1,834,950	\$ 1,903,631

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)**

	Three months ended March 31,	
	2014	2013
Revenue:		
Electricity sales	\$ 53,871	\$ 45,232
Energy derivative settlements	2,735	5,408
Unrealized loss on energy derivative	(7,733)	(6,803)
Related party revenue	445	
Other revenue	231	
Total revenue	49,549	43,837
Cost of revenue:		
Project expense	16,074	12,977
Depreciation and accretion	21,177	22,566
Total cost of revenue	37,251	35,543
Gross profit	12,298	8,294
Operating expenses:		
General and administrative	3,903	144
Related party general and administrative	1,280	2,662
Total operating expenses	5,183	2,806
Operating income	7,115	5,488
Other income (expense):		
Interest expense	(14,621)	(16,642)
Equity in losses in unconsolidated investments	(12,548)	(10,025)
Interest rate derivative settlements	(1,017)	
Unrealized (loss) gain on derivatives	(3,723)	1,931
Related party income	696	
Other income, net	167	758
Total other expense	(31,046)	(23,978)
Net loss before income tax	(23,931)	(18,490)

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Tax (benefit) provision	(2,032)	294
Net loss	(21,899)	(18,784)
Net loss attributable to noncontrolling interest	(7,010)	(3,579)
Net loss attributable to controlling interest	\$ (14,889)	\$ (15,205)

Weighted average number of shares:

Class A common stock - Basic	35,533,166
Class A common stock - Diluted (as restated*)	51,421,931
Class B common stock - Basic and diluted	15,555,000

Earnings per share

Class A common stock:	
Basic loss per share	\$ (0.20)
Diluted loss per share (as restated*)	\$ (0.29)
Class B common stock:	
Basic and diluted loss per share	\$ (0.51)
Cash dividends declared per Class A common share	\$ 0.31

2013 pro forma information:

Unaudited pro forma net loss after tax:

<i>Net loss before income tax</i>	\$ (18,490)
<i>Pro forma tax provision</i>	279
<i>Pro forma net loss</i>	\$ (18,769)

* as restated for the three months ended March 31, 2014 (refer to Note 14)

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)**

	Three months ended March 31,	
	2014	2013
Net loss	\$ (21,899)	\$ (18,784)
Other comprehensive (loss) income:		
Foreign currency translation, net of tax impact of \$0 and \$0, respectively	(5,090)	(3,491)
Derivative activity:		
Effective portion of change in fair market value of derivatives, net of tax impact of \$0 and \$0, respectively	(2,751)	7,925
Reclassifications to net loss, net of tax impact of \$0 and \$0, respectively	(3,171)	(2,605)
Total change in effective portion of change in fair market value of derivatives	(5,922)	5,320
Proportionate share of equity investee's other comprehensive (loss) income activity, net of tax benefit of \$1,245 and \$19, respectively	(3,078)	343
Total other comprehensive (loss) income, net of tax	(14,090)	2,172
Comprehensive income loss	(35,989)	(16,612)
Less comprehensive loss attributable to noncontrolling interest:		
Net loss attributable to noncontrolling interest	(7,010)	(3,579)
Derivative activity:		
Effective portion of change in fair market value of derivatives, net of tax impact of \$0 and \$0, respectively	923	1,191
Reclassifications to net loss, net of tax impact of \$0 and \$0, respectively	(829)	(461)
Total change in effective portion of change in fair market value of derivatives	94	730
Comprehensive loss attributable to noncontrolling interest	(6,916)	(2,849)
Comprehensive loss attributable to controlling interest	\$ (29,073)	\$ (13,763)

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)

Class A Common Stock	Class B Common Stock	Controlling Interest						Noncontrolling Interest				
		Amount	Shares	Amount	Additional Paid-in Capital	Capital	Accumulated Income (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total	Capital	Accumulated Income (Deficit)	Accumulated Other Comprehensive Income (Loss)
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)			
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)
3,287	2			379				381			
(939)				(26)				(26)			

			152					152				
			125					125				
			(11,157)					(11,157)				
					(14,889)			(14,889)		(7,010)		
							(14,184)	(14,184)			94	
3,134	\$ 357	15,555,000	\$ 156	\$ 478,861	\$		\$(28,225)	\$(22,537)	\$ 428,612	\$ 90,217	\$ 11,591	\$ (8,930)

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)

	Three months ended March 31,	
	2014	2013
Operating activities		
Net loss	\$ (21,899)	\$ (18,784)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and accretion	21,177	22,566
Amortization of financing costs	1,395	2,230
Unrealized loss on derivatives	11,456	4,872
Stock-based compensation	533	
Deferred taxes	(2,032)	292
Equity in losses in unconsolidated investments	12,548	10,025
Changes in operating assets and liabilities:		
Trade receivables	(6,357)	(13,221)
Reimbursable interconnection receivable		(416)
Prepaid expenses and other current assets	4,027	865
Other assets (non-current)	(122)	(115)
Accounts payable and other accrued liabilities	(5,021)	(815)
Related party receivable/payable	(155)	(198)
Accrued interest payable	855	1,090
Net cash provided by operating activities	16,405	8,391
Investing activities		
Proceeds from sale of investments		7,054
Decrease in restricted cash	300	778
Increase in restricted cash	(1)	(3)
Capital expenditures	314	(67,178)
Deferred development costs		(528)
Distribution from unconsolidated investments		10,463
Contribution to unconsolidated investments	(1,283)	(6,524)
Reimbursable interconnection receivable	1,418	(5,227)
Other assets (non-current)	618	446
Net cash provided by (used in) investing activities	1,366	(60,719)
Financing activities		
Proceeds from IPO, net of expenses	\$ (135)	\$
Repurchase of shares for employee tax withholding	(26)	

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Dividends paid	(11,082)	
Capital contributions - controlling interest		21,454
Capital distributions - controlling interest		(23,465)
Capital distributions - noncontrolling interest		(168)
Decrease in restricted cash	4,668	
Increase in restricted cash	(7,707)	(5,252)
Payment for deferred financing costs	(589)	(45)
Proceeds from long-term debt		78,047
Repayment of long-term debt	(5,830)	(6,231)
Net cash (used in) provided by financing activities	(20,701)	64,340
Effect of exchange rate changes on cash and cash equivalents	(296)	(742)
Net change in cash and cash equivalents	(3,226)	11,270
Cash and cash equivalents at beginning of period	103,569	17,574
Cash and cash equivalents at end of period	\$ 100,343	\$ 28,844
Supplemental disclosure		
Cash payments for interest and commitment fees	\$ 12,597	\$ 13,379
Schedule of non-cash activities		
Change in fair value of interest rate swaps	(9,471)	7,205
Change in fair value of contingent liabilities		8,001
Capitalized interest	1,283	391
Capitalized commitment fee		28
Change in property, plant and equipment	(31,074)	(84,118)
Transfer of capitalized assets to South Kent joint venture		49,275
Non-cash distribution to Pattern Development		(3,283)

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Organization

Pattern Energy Group Inc. (Pattern Energy or the Company) was organized in the state of Delaware on October 2, 2012. Pattern Energy issued 100 shares on October 17, 2012 to Pattern Renewables LP, a 100% owned subsidiary of Pattern Energy Group LP (Pattern Development). On September 24, 2013, Pattern Energy s charter was amended, and the number of shares that Pattern Energy is authorized to issue was increased to 620,000,000 total shares; 500,000,000 of which are designated Class A common stock, 20,000,000 of which are designated Class B common stock, and 100,000,000 of which are designated Preferred Stock.

Pattern Energy is an independent energy generation company focused on constructing, owning and operating energy projects with long-term energy sales contracts located in the United States, Canada and Chile. The Company consists of the consolidated operations of certain entities and assets contributed by Pattern Development. The Company owns 100% of Hatchet Ridge Wind, LLC (Hatchet Ridge), St. Joseph Windfarm Inc. (St. Joseph), Spring Valley Wind LLC (Spring Valley), Pattern Santa Isabel LLC (Santa Isabel) and Ocotillo Express LLC (Ocotillo). The Company owns a controlling interest in Pattern Gulf Wind Holdings LLC (Gulf Wind) and noncontrolling interests in South Kent Wind LP (South Kent), Grand Renewable Wind LP (Grand) and AEI-Pattern Holding Limitada (El Arrayán). The principal business objective of the Company is to produce stable and sustainable cash flows through the generation and sale of energy.

Initial Public Offering and Contribution Transactions

On October 2, 2013, Pattern Energy issued 16,000,000 shares of Class A common stock in an initial public offering (IPO) generating net proceeds of approximately \$317.0 million. Concurrent with the IPO, Pattern Energy issued 19,445,000 shares of Class A common stock and 15,555,000 shares of Class B common stock to Pattern Development and utilized approximately \$232.6 million of the net proceeds of the IPO as a portion of the consideration to Pattern Development for certain entities and assets contributed to Pattern Energy (Contribution Transactions) consisting of interests in eight wind power projects, including six projects in operation (Gulf Wind, Hatchet Ridge, St. Joseph, Spring Valley, Santa Isabel and Ocotillo), and two projects under construction (El Arrayán and South Kent). In accordance with ASC 805-50-30-5, *Transactions between Entities under Common Control*, Pattern Energy recognized the assets and liabilities contributed by Pattern Development at their historical carrying amounts at the date of the Contribution Transactions. On October 8, 2013, Pattern Energy s underwriters exercised in full their overallotment option to purchase 2,400,000 shares of Class A common stock from Pattern Development, the selling stockholder, pursuant to the overallotment option granted by Pattern Development.

In connection with the Contribution Transactions, Pattern Development retained a 40% portion of the interest in Gulf Wind previously held by it such that, at the completion of the IPO, Pattern Energy, Pattern Development and the joint venture partner held interests of approximately 40%, 27% and 33%, respectively, of the distributable cash flow of Gulf Wind, together with certain allocated tax items.

Effective with Pattern Energy s IPO, Pattern Development s project operations and maintenance personnel and certain of its executive officers became Pattern Energy employees and their employment with Pattern Development was

terminated. Pattern Development retained those employees whose primary responsibilities relate to project development, legal, financial or other administrative functions. Pattern Energy entered into a bilateral services agreement with Pattern Development, or the Management Services Agreement, that provides for Pattern Energy and Pattern Development to benefit, primarily on a cost-reimbursement basis, from the respective management and other professional, technical and administrative personnel of the respective companies, all of whom report to and are managed by Pattern Energy's executive officers.

Basis of Presentation

Pattern Energy was formed by Pattern Development for the purpose of an IPO. For periods prior to October 2, 2013, Pattern Energy was a shell company, with expenses of less than \$10,000 for 2013 and 2012. In accordance with ASC 805-50-30-6, the historical financial statements of Pattern Energy's predecessor, which consist of the combined financial statements of a combination of entities and assets contributed by Pattern Development to Pattern Energy, are consolidated with Pattern Energy from the beginning of the earliest period presented.

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Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the interim financial information reflects all adjustments of a normal recurring nature, necessary for a fair presentation of the Company s financial position at March 31, 2014, the results of operations, comprehensive income, and cash flows for the three months ended March 31, 2014 and 2013. The consolidated balance sheet at December 31, 2013 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. This Form 10-Q/A should be read in conjunction with the consolidated financial statements and accompanying notes contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

2. Summary of Significant Accounting Policies

As of March 31, 2014, there have been no material changes to the Company s significant accounting policies as compared to the significant accounting policies described in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP. They include the results of wholly-owned and partially-owned subsidiaries in which the Company has a controlling interest with all significant intercompany accounts and transactions eliminated.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, and such differences may be material to the financial statements.

Unaudited Pro Forma Income Tax

In order to present the tax effect of the Contribution Transactions, the Company has presented a pro forma income tax provision as if the Contribution Transactions occurred effective January 1, 2012 and as if the Company were under control of a Subchapter C-Corporation for U.S. federal income tax purposes.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, trade receivables and derivative assets. The Company places its cash and cash equivalents with high quality institutions.

The Company sells electricity and environmental attributes, including renewable energy credits, primarily to creditworthy utilities under long-term, fixed-priced Power Sale Agreements (PPAs). The table below presents significant customers who accounted for the following percentages of total revenues during the three months ended March 31, 2014 and 2013: