

Pattern Energy Group Inc.
Form 10-Q
August 05, 2016

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, 2016.

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 August 3, 2016, there were 76,170,183 shares of Class A common stock outstanding with par value of \$0.01 per share.

PATTERN ENERGY GROUP INC.
REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016
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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Quarterly Report on Form 10-Q (Form 10-Q) may constitute “forward-looking statements.” You can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “should,” “will,” “would,” or similar words. You should read statements that contain these words carefully because they discuss our current plans, strategies, prospects, and expectations concerning our business, operating results, financial condition, and other similar matters. While we believe that these forward-looking statements are reasonable as and when made, there may be events in the future that we are not able to predict accurately or control, and there can be no assurance that future developments affecting our business will be those that we anticipate. 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 the acquisition of power projects;
- our ability to complete construction of our construction projects and transition them into financially successful operating projects;
- fluctuations in supply, demand, prices and other conditions for electricity, other commodities and renewable energy credits (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 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.”

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 Form 10-Q and Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

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.

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)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	\$87,641	\$94,808
Restricted cash (Note 5)	12,228	14,609
Funds deposited by counterparty	49,480	—
Trade receivables (Note 5)	49,329	45,292
Related party receivable	689	734
Reimbursable interconnection costs	—	38
Derivative assets, current	18,381	24,338
Prepaid expenses (Note 5)	11,128	14,498
Other current assets (Note 5)	10,102	6,891
Deferred financing costs, current, net of accumulated amortization of \$6,310 and \$5,192 as of June 30, 2016 and December 31, 2015, respectively	2,158	2,121
Total current assets	241,136	203,329
Restricted cash (Note 5)	16,372	36,875
Property, plant and equipment, net of accumulated depreciation of \$498,867 and \$409,161 as of June 30, 2016 and December 31, 2015, respectively (Note 5)	3,225,658	3,294,620
Unconsolidated investments	92,792	116,473
Derivative assets	31,704	44,014
Deferred financing costs	3,572	4,572
Net deferred tax assets	10,888	6,804
Finite-lived intangible assets, net of accumulated amortization of \$7,734 and \$4,357 as of June 30, 2016 and December 31, 2015, respectively (Note 5)	94,256	97,722
Other assets (Note 5)	23,930	25,183
Total assets	\$3,740,308	\$3,829,592
Liabilities and equity		
Current liabilities:		
Accounts payable and other accrued liabilities (Note 5)	\$29,923	\$42,776
Accrued construction costs (Note 5)	4,494	23,565
Counterparty deposit liability	49,480	—
Related party payable	833	1,646
Accrued interest (Note 5)	8,916	9,035
Dividends payable	29,711	28,022
Derivative liabilities, current	15,711	14,343
Revolving credit facility	335,000	355,000
Current portion of long-term debt, net of financing costs of \$3,638 and \$3,671 as of June 30, 2016 and December 31, 2015, respectively	45,721	44,144
Other current liabilities (Note 5)	2,557	2,156
Total current liabilities	522,346	520,687
	1,163,229	1,174,380

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Long-term debt, net of financing costs of \$21,036 and \$22,632 as of June 30, 2016 and December 31, 2015, respectively		
Convertible senior notes, net of financing costs of \$4,449 and \$5,014 as of June 30, 2016 and December 31, 2015, respectively	200,103	197,362
Derivative liabilities	69,842	28,659
Net deferred tax liabilities	22,860	22,183
Finite-lived intangible liability, net of accumulated amortization of \$3,902 and \$2,168 as of June 30, 2016 and December 31, 2015, respectively	56,398	58,132
Other long-term liabilities (Note 5)	60,004	52,427
Total liabilities	2,094,782	2,053,830
Commitments and contingencies (Note 15)		
Equity:		
Class A common stock, \$0.01 par value per share: 500,000,000 shares authorized; 74,930,002 and 74,644,141 shares outstanding as of June 30, 2016 and December 31, 2015, respectively	750	747
Additional paid-in capital	927,812	982,814
Accumulated loss	(104,052)	(77,159)
Accumulated other comprehensive loss	(94,037)	(73,325)
Treasury stock, at cost; 67,344 and 65,301 shares of Class A common stock as of June 30, 2016 and December 31, 2015, respectively	(1,617)	(1,577)
Total equity before noncontrolling interest	728,856	831,500
Noncontrolling interest	916,670	944,262
Total equity	1,645,526	1,775,762
Total liabilities and equity	\$3,740,308	\$3,829,592
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		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenue:				
Electricity sales	\$91,370	\$ 82,871	\$ 177,033	\$ 146,996
Related party revenue	1,332	872	2,547	1,675
Other revenue	736	928	1,497	866
Total revenue	93,438	84,671	181,077	149,537
Cost of revenue:				
Project expense	33,359	27,981	65,605	53,227
Depreciation and accretion	43,678	34,342	87,089	63,398
Total cost of revenue	77,037	62,323	152,694	116,625
Gross profit	16,401	22,348	28,383	32,912
Operating expenses:				
General and administrative	10,362	8,870	19,931	15,091
Related party general and administrative	1,931	1,621	3,828	3,429
Total operating expenses	12,293	10,491	23,759	18,520
Operating income	4,108	11,857	4,624	14,392
Other income (expense):				
Interest expense	(21,275)	(18,943)	(42,336)	(36,861)
Gain (loss) on undesignated derivatives, net	(5,879)	4,178	(19,510)	778
Earnings in unconsolidated investments, net	7,240	13,801	11,070	10,719
Related party income	1,097	756	2,104	1,424
Net loss on transactions	(72)	(1,305)	(39)	(2,589)
Other income (expense), net	564	(1,084)	2,120	(1,408)
Total other expense	(18,325)	(2,597)	(46,591)	(27,937)
Net income (loss) before income tax	(14,217)	9,260	(41,967)	(13,545)
Tax provision	1,429	3,603	2,727	2,857
Net income (loss)	(15,646)	5,657	(44,694)	(16,402)
Net loss attributable to noncontrolling interest	(12,423)	(8,660)	(17,801)	(10,820)
Net income (loss) attributable to Pattern Energy	\$(3,223)	\$ 14,317	\$(26,893)	\$(5,582)
Weighted average number of shares:				
Class A common stock - Basic	74,443,901	68,943,707	74,440,950	67,426,286
Class A common stock - Diluted	74,443,901	69,147,260	74,440,950	67,426,286
Earnings (loss) per share				
Class A common stock:				
Basic earnings (loss) per share	\$(0.04)	\$ 0.21	\$(0.36)	\$(0.08)
Diluted earnings (loss) per share	\$(0.04)	\$ 0.21	\$(0.36)	\$(0.08)
Dividends declared per Class A common share	\$0.39	\$ 0.35	\$0.77	\$ 0.71

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income (loss)	\$(15,646)	\$5,657	\$(44,694)	\$(16,402)
Other comprehensive income (loss):				
Foreign currency translation, net of zero tax impact	780	(498)	11,642	(9,692)
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit (provision) of \$1,379, (\$628), \$4,102, and \$56, respectively	(9,964)	10,100	(30,661)	(657)
Reclassifications to net loss, net of tax impact of \$281, \$168, \$583 and \$341, respectively	2,721	3,465	5,623	6,956
Total change in effective portion of change in fair market value of derivatives	(7,243)	13,565	(25,038)	6,299
Proportionate share of equity investee's derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit (provision) of \$1,296, (\$7), \$3,969 and \$859, respectively	(3,594)	20	(11,008)	(2,382)
Reclassifications to net loss, net of tax impact of \$470, \$206, \$922 and \$377, respectively	1,304	571	2,557	1,045
Total change in effective portion of change in fair market value of derivatives	(2,290)	591	(8,451)	(1,337)
Total other comprehensive income (loss), net of tax	(8,753)	13,658	(21,847)	(4,730)
Comprehensive income (loss)	(24,399)	19,315	(66,541)	(21,132)
Less comprehensive loss attributable to noncontrolling interest:				
Net loss attributable to noncontrolling interest	(12,423)	(8,660)	(17,801)	(10,820)
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit (provision) of \$164, (\$188), \$507 and \$17, respectively	(442)	955	(1,370)	(985)
Reclassifications to net loss, net of tax impact of \$40, \$50, \$87 and \$102, respectively	107	905	235	1,821
Total change in effective portion of change in fair market value of derivatives	(335)	1,860	(1,135)	836
Comprehensive loss attributable to noncontrolling interest	(12,758)	(6,800)	(18,936)	(9,984)
Comprehensive income (loss) attributable to Pattern Energy	\$(11,641)	\$26,115	\$(47,605)	\$(11,148)
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		Treasury Stock		Additional Paid-in Capital	Accumulated Loss	Accumulated Other Comprehensive Loss	Total	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount						
Balances at December 31, 2014	62,088,306	\$ 621	(25,465)	\$(717)	\$723,938	\$(44,626)	\$(45,068)	\$634,148	\$530,586	\$1,164,734
Issuance of Class A common stock related to the public offering, net of issuance costs	7,000,000	70	—	—	196,089	—	—	196,159	—	196,159
Issuance of Class A common stock under equity incentive award plan	186,136	2	—	—	(2)	—	—	—	—	—
Repurchase of shares for employee tax withholding	—	—	(11,058)	(310)	—	—	—	(310)	—	(310)
Stock-based compensation	—	—	—	—	1,989	—	—	1,989	—	1,989
Dividends declared	—	—	—	—	(48,003)	—	—	(48,003)	—	(48,003)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(1,511)	(1,511)
Acquisition of Post Rock	—	—	—	—	—	—	—	—	205,100	205,100
Other	—	—	—	—	4	—	—	4	—	4
Net loss	—	—	—	—	—	(5,582)	—	(5,582)	(10,820)	(16,402)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(5,566)	(5,566)	836	(4,730)
Balances at June 30, 2015	69,274,442	\$ 693	(36,523)	\$						