Pattern Energy Group Inc.
Form 10-Q
May 02, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **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 incorporation or organization)	**(I.R.S. Employer 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 x 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 x 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 x	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 x

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.

Table of Contents

PATTERN ENERGY GROUP INC.

REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Table of Contents

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, woul 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 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;

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

Table of Contents

- 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)

	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
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	Three months ended March 31, 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)

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:				
Basic and diluted - Class A common stock		35,533,166		
Basic and diluted - Class B common stock		15,555,000		
Earnings per share				
Class A common stock:				
Basic and diluted loss per share	$	(0.20)		
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:				
Net loss before income tax			*$*	*(18,490)*
Pro forma tax provision				*279*
Pro forma net loss			*$*	*(18,769)*

See accompanying notes to consolidated financial statements.

6

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.

Table of Contents

Pattern Energy Group Inc.

Consolidated Statements of Stockholders Equity

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

(Unaudited)

Controlling Interest									Noncontrolling Interest		
Common Stock		Class B Common Stock		Additional Paid-in		Accumulated	Accumulated Other			Accumulated	Accumulated Other
res	Amount	Shares	Amount	Capital	Capital	Income (Deficit)	Comprehensive Income (Loss)	Total	Capital	Income (Deficit)	Comprehensiv 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				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)			
,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.

Table of Contents

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)

See accompanying notes to consolidated financial statements.

Table of Contents

Pattern Energy Group Inc.

Consolidated Statements of Cash Flows

(In thousands of U.S. Dollars)

(Unaudited)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Financing activities		
Proceeds from IPO, net of expenses	$ (135)	$
Repurchase of shares for employee tax withholding	(26)	
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.

Table of Contents

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.

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

Table of Contents

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 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:

	Three months ended March 31,	
	2014	**2013**
Manitoba Hydro	23.12%	21.70%

San Diego Gas & Electric	21.85%	22.51%
Pacific Gas & Electric Company	16.81%	15.42%
Electric Reliability Council of Texas	14.71%	12.95%

The Company s derivative assets are placed with counterparties that are creditworthy institutions. A derivative asset was generated from Credit Suisse Energy LLC, the counterparty to a 10-year fixed-for-floating swap related to annual electricity generation at the Company s Gulf Wind project. The Company s reimbursements for prepaid interconnect network upgrades are with large creditworthy utility companies.

Reclassification

Certain prior period balances have been reclassified to conform to current period presentation of the Company s consolidated financial statements and accompanying notes. Such reclassifications have no effect on previously reported balance sheet subtotals, results of operations or retained earnings.

Recently Issued Accounting Standards

In February 2013, the FASB issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income to amend the reporting of reclassifications out of accumulated other comprehensive income (AOCI) to require an entity to report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount reclassified is required under U.S. GAAP to be reclassified in its entirety to net income in the same reporting period. An entity shall provide this information together in one

Table of Contents

location, either on the face of the statement where net income is presented, or as a separate disclosure in the notes to the financial statements. The new disclosure requirements relating to this update are prospective and effective for interim and annual periods beginning after December 15, 2012, with early adoption permitted. For nonpublic companies, ASU 2013-02 is effective for fiscal years beginning after December 15, 2013. As a result of the Jumpstart Our Business Startups (JOBS) Act enacted in April 2012, emerging growth companies can elect to delay the adoption of new or revised accounting standards for public companies until those standards would otherwise apply to private companies, as such, the Company adopted ASU 2013-02 on January 1, 2014. As this update only requires additional disclosures, adoption of this standard did not have a material impact on our financial condition, results of operations or cash flows. See Note 10 for disclosures on the effect of significant reclassifications out of AOCI on the respective line items in our consolidated statements of operations.

In July 2013, the FASB issued ASU 2013-11, Income Taxes Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists which requires an entity to present an unrecognized tax benefit as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax laws of the applicable jurisdiction to settle any additional income taxes or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. When those circumstances exist, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. For the Company, ASU 2013-11 will be effective on January 1, 2015, as a result of the JOBS Act enacted in April 2012, which allows emerging growth companies to delay the adoption of new or revised accounting standards, until those standards would otherwise apply to private companies. We are currently assessing the future impact of this update, but we do not anticipate a material impact on our financial condition, results of operations or cash flows.

3. Prepaid expenses and other current assets

The following table presents the components of prepaid expenses and other current assets (in thousands):

	March 31, 2014	December 31, 2013
Prepaid expenses	$ 6,174	$ 10,132
Sales tax	81	50
Interconnection network upgrade receivable	2,507	2,512
Other current assets	1,116	1,233
Prepaid expenses and other current assets	$ 9,878	$ 13,927

4. Property, Plant and Equipment

The following presents the categories within property, plant and equipment (in thousands):

	March 31, 2014	December 31, 2013
Operating wind farms	$ 1,639,707	$ 1,652,119
Furniture, fixtures and equipment	3,798	3,785
Land	16	16
Subtotal	1,643,521	1,655,920
Less: accumulated depreciation	(198,967)	(179,778)
Property, plant and equipment, net	$ 1,444,554	$ 1,476,142

The Company recorded depreciation expense related to property, plant and equipment of $20.8 million and $22.3 million for the three months ended March 31, 2014 and 2013, respectively.

In June 2013, the Company received $115.9 million and $57.6 million for Ocotillo and Santa Isabel, respectively, under a cash grant in lieu of investment tax credit (Cash Grant) from the U.S. Department of the Treasury. In December 2012, the Company received $79.9 million for Spring Valley under a Cash Grant from the U.S. Department of the Treasury. The Company recorded the cash proceeds as a reduction of the carrying amount of the related wind farm assets which resulted in the assets being recorded at lower amounts.

Table of Contents

The Cash Grants received for Ocotillo, Santa Isabel and Spring Valley reduced depreciation expense recorded in the consolidated statements of operations by approximately $3.2 million and $1.0 million for the three months ended March 31, 2014 and 2013, respectively.

5. Unconsolidated Investments

The following presents projects that are accounted for under the equity method of accounting (in thousands):

			Percentage of Ownership	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
South Kent	$ 47,590	$ 59,488	50.0%	50.0%
El Arrayán	20,501	21,103	31.5%	31.5%
Grand	20,455	26,464	45.0%	45.0%
Unconsolidated investments	$ 88,546	$ 107,055		

The following summarizes the aggregated operating results of the unconsolidated joint ventures for the three months ended March 31, 2014 and 2013, respectively (in thousands):

	Three months ended March 31, 2014	2013
Revenue	$ 1,517	$
Expenses	27,183	19,724
Net loss	$ (25,666)	$ (19,724)

El Arrayán

The Company is a noncontrolling investor in a joint venture established to develop, construct, and own a wind power project located in Chile. The project has a 20-year PPA and commenced construction in May 2012.

Grand

The Company is a noncontrolling investor in a joint venture established to develop, construct, and own a wind power project located in Ontario, Canada. The project has a 20-year PPA and commenced construction in September 2013.

South Kent

The Company is a noncontrolling investor in a joint venture established to develop, construct, and own a wind power project located in Ontario, Canada. The project has a 20-year PPA, and commenced commercial operations on March 28, 2014.

Significant Subsidiary South Kent

The following table presents summarized statements of operations information as required for significant equity method investees, pursuant to Regulation S-X Rule 10-01(b)(1).

	Three months ended March 31, 2014	2013
Revenue	$ 1,517	$
Operating expenses		
Assets operation	362	0
Professional fee	118	
General and administrative expenses	(269)	386
Depreciation, amortization	377	
Other income and expenses	393	
Operating income (loss)	536	(386)
Unrealized loss on derivatives	(21,386)	(20,031)
Other income		29
Net loss	$ (20,850)	$ (20,388)

6. Accounts payable and other accrued liabilities

The following table presents the components of accounts payable and other accrued liabilities (in thousands):

	March 31, 2014	December 31, 2013
Accounts payable	$ 31	$ 168
Other accrued liabilities	5,918	7,282
Warranty settlement payments	1,956	2,187
Payroll liabilities	1,053	2,162
Property tax payable	1,145	3,490
Sales tax payable	226	261
Accounts payable and other accrued liabilities	$ 10,329	$ 15,550

7. Long-term debt

The Company s long-term debt which consists of limited recourse or nonrecourse indebtedness is presented below (in thousands):

	March 31, 2014	December 31, 2013	Interest Rate as of March 31, 2014	Interest Rate as of December 31, 2013	Interest Type	Maturity
Hatchet Ridge term loan	$ 239,865	$ 239,865	1.43%	1.43%	Imputed	December 2032
Gulf Wind term loan	164,517	166,448	3.23%	3.25%	Variable	March 2020
St. Joseph term loan	205,118	215,330	5.88%	5.88%	Fixed	May 2031
Spring Valley term loan	172,388	173,110	2.62%	2.63%	Variable	June 2030
Santa Isabel term loan	114,456	115,721	4.57%	4.57%	Fixed	September 2033
Ocotillo commercial term loan	230,944	230,944	2.98%	3.00%	Variable	August 2020
Ocotillo development term loan	107,800	107,800	2.33%	2.35%	Variable	August 2033
	1,235,088	1,249,218				
Less: current portion	(48,615)	(48,851)				
	$ 1,186,473	$ 1,200,367				

Interest and commitment fees incurred, and interest expense recorded in the Company s consolidated statements of operations is as follows (in thousands):

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest and commitment fees incurred	$ 13,457	$ 14,064

Capitalized interest, commitment fees, and letter of credit fees	(1,283)	(419)
Letter of credit fees	1,052	767
Amortization of financing costs	1,395	2,230
Interest expense	$ 14,621	$ 16,642

Revolving Credit Facility

In November 2012, certain of our subsidiaries entered into a $120.0 million revolving working capital facility with a four-year term, comprised of a revolving loan facility and a letter of credit facility, which we refer to collectively as our revolving credit facility. The revolving credit facility has an accordion feature under which the Company had the right to increase available borrowings by up to $35.0 million if the Company s lenders or other additional lenders are willing to lend on the same terms and meet certain other conditions.

Collateral for the revolving credit facility consists of the Company s membership interests in certain of the Company s holding company subsidiaries. The revolving credit facility contains a broad range of covenants that, subject to certain exceptions, restrict the Company s ability to incur debt, grant liens, sell or lease assets, transfer equity interests, dissolve, pay distributions and change its business.

In March 2014, the Company exercised the accordion feature by increasing available borrowings by an additional $25.0 million, resulting in an aggregate facility amount of $145.0 million. Simultaneously, the Ocotillo project was added to the collateral pool that supports the revolving credit facility.

As of March 31, 2014 and December 31, 2013, letters of credit of $47.1 million and $44.8 million, respectively, have been issued and loans of $56.0 million were drawn and repaid during 2013. As of March 31, 2014 and December 31, 2013, there were no outstanding balances on the revolving credit facility.

Table of Contents

8. Asset Retirement Obligations

The Company s asset retirement obligations represent the estimated cost, at all of its projects, of decommissioning the turbines, removing above-ground installations and restoring the sites at a date that is 20 years from the commencement of commercial operations of the facility.

The following table presents a reconciliation of the beginning and ending aggregate carrying amounts of asset retirement obligations as of March 31, 2014 and 2013 (in thousands):

	Three months ended March 31, 2014	2013
Beginning asset retirement obligations	$ 20,834	$ 19,056
Additions during the period		508
Foreign currency translation adjustment	(99)	(57)
Accretion expense	347	292
Ending asset retirement obligations	$ 21,082	$ 19,799

9. Derivative Instruments

The Company employs a variety of derivative instruments to manage its exposure to fluctuations in interest rates and electricity prices. The following tables present the amounts that are recorded in the Company s financial statements (in thousands):

Undesignated Derivative Instruments Classified as Assets (Liabilities):

			As of Fair Market Value		For the period ended QTD Gain (Loss) Recognized into Income
Derivative Type	Quantity	Maturity Dates	Current Portion	Long-Term Portion	
March 31, 2014					
Interest rate swaps	6	6/30/2030	$ (3,916)	$ 10,826	$ (3,549)
Interest rate cap	1	12/31/2024		507	(174)
Energy derivative	1	4/30/2019	11,906	48,714	(7,733)
			$ 7,990	$ 60,047	$ (11,456)
December 31, 2013					
Interest rate swaps	6	6/30/2030	$ (3,899)	$ 14,358	$ 4,585
Interest rate cap	1	12/31/2024		681	107
Energy derivative	1	4/30/2019	13,937	54,416	(6,050)

			$ 10,038	$ 69,455	$ (1,358)
March 31, 2013					
Interest rate swaps	6	6/30/2030	$ (2,894)	$ (129)	$ 1,886
Interest rate cap	1	12/31/2024		492	45
Energy derivative	1	4/30/2019	13,543	59,279	(6,803)
			$ 10,649	$ 59,642	$ (4,872)

16

Table of Contents

Designated Derivative Instruments Classified as Assets (Liabilities):

Derivative Type	Quantity	Maturity Dates	As of Fair Market Value Current Portion	Long-Term Portion	For the period ended QTD Gain (Loss) Recognized in OCI
March 31, 2014					
Interest rate swaps	6	6/30/2033	$ (2,126)	$ 6,888	$ (2,758)
Interest rate swaps	7	3/15/2020	(5,250)	(7,452)	26
Interest rate swaps	2	6/28/2030	(4,913)	(68)	(3,190)
			$ (12,289)	$ (632)	$ (5,922)
December 31, 2013					
Interest rate swaps	6	6/30/2033	$ (2,105)	$ 9,625	$ 3,117
Interest rate swaps	7	3/15/2020	(5,289)	(7,439)	2,129
Interest rate swaps	2	6/28/2030	(4,878)	3,087	4,143
			$ (12,272)	$ 5,273	$ 9,389
March 31, 2013					
Interest rate swaps	6	6/30/2033	$ (1,547)	$ 29	$ 1,396
Interest rate swaps	7	3/15/2020	(5,502)	(15,352)	1,272
Interest rate swaps	2	6/28/2030	(4,959)	(11,227)	2,652
			$ (12,008)	$ (26,550)	$ 5,320

Gulf Wind

In 2010, Gulf Wind entered into interest rate swaps with each of its lenders to manage exposure to interest rate risk on its long-term debt. The fixed interest rate is set at 6.6% for years two through eight and 7.1% and 7.6% for the last two years of the loan term, respectively. The interest rate swaps qualify for hedge accounting and were designated as cash flow hedges. No ineffectiveness was recorded for the three months ended March 31, 2014 and 2013. The Company reclassified $1.4 million into earnings from accumulated other comprehensive loss during the three months ended March 31, 2014 and 2013.

In 2010, Gulf Wind also entered into an interest rate cap to manage exposure to future interest rates when its long-term debt is expected to be refinanced at the end of the ten-year term. The cap protects the Company if future interest rates exceed approximately 6.0%. The cap has an effective date of March 31, 2020, terminates on December 31, 2024, and has a notional amount of $42.1 million which reduces quarterly during its term. The cap is a derivative but does not qualify for hedge accounting and has not been designated. The Company recognized unrealized losses of $0.2 million for the three months ended March 31, 2014 in unrealized (loss) gain on derivatives in the consolidated statements of operations. An immaterial loss was recorded during the same period in the previous year.

In 2010, Gulf Wind acquired an energy derivative instrument to manage its exposure to variable electricity prices. The energy price swap fixes the price of approximately 58% of its electricity generation through April 2019. The energy derivative instrument is a derivative but did not meet the criteria required to adopt hedge accounting. The energy derivative instrument s fair value as of March 31, 2014 and December 31, 2013 was $60.6 million and $68.4 million, respectively. Gulf Wind recognized losses of $7.7 million, and $6.8 million for the three months ended March 31, 2014 and 2013, respectively, in unrealized loss on energy derivative in the consolidated statements of operations.

Spring Valley

In 2011, Spring Valley entered into interest rate swaps with its lenders to manage exposure to interest rate risk on its long-term debt. No ineffectiveness was recorded for the three months ended March 31, 2014 and 2013. The interest rate swaps exchange variable interest rate payments for fixed interest rate payments of approximately 5.5% for the first four years of its term debt and increases by 0.25% every four years, thereafter. The interest rate swaps qualify for hedge accounting and were designated as cash flow hedges. The Company reclassified $1.3 million and $1.2 million into earnings from accumulated other comprehensive loss during the three months ended March 31, 2014 and 2013, respectively.

Table of Contents

Ocotillo

In October 2012, Ocotillo entered into interest rate swaps with its lenders to manage exposure to interest rate risk on its long-term debt. The interest rate swaps exchange variable interest rate payments for fixed interest rate payments of approximately 2.5% and 2.2% for the development bank term loans and the commercial bank term loans, respectively. No ineffectiveness was recorded for the three months ended March 31, 2014 and 2013. The interest rate swaps for the development bank loans qualify for hedge accounting and were designated as cash flow hedges. The Company reclassified $0.5 million into earnings from accumulated other comprehensive loss during the three months ended March 31, 2014. No amounts were reclassified from accumulated other comprehensive loss during the three months ended March 31, 2013. The interest rate swaps for the commercial bank loans are undesignated derivatives that are used to mitigate exposure to variable interest rate debt.

10. Accumulated Other Comprehensive Loss

The following tables summarize the changes in the accumulated other comprehensive loss balance by component, net of tax, for the three months ended March 31, 2014 and 2013 (in thousands):

	Foreign Currency	Effective Portion of Change in Fair Value of Derivatives	Proportionate Share of Equity Investee s OCI	Total
Balances at December 31, 2013	$ (8,463)	$ (7,002)	$ (1,912)	$ (17,377)
Other comprehensive loss before reclassifications	(5,090)	(2,751)	(3,078)	(10,919)
Amounts reclassified from accumulated other comprehensive loss		(3,171)		(3,171)
Net current period other comprehensive loss	(5,090)	(5,922)	(3,078)	(14,090)
Balances at March 31, 2014	$ (13,553)	$ (12,924)	$ (4,990)	$ (31,467)

	Foreign Currency	Effective Portion of Change in Fair Value of Derivatives	Proportionate Share of Equity Investee s OCI	Total
Balances at December 31, 2012	$ (154)	$ (43,877)	$ (1,475)	$ (45,506)
Other comprehensive (loss) income before reclassifications	(3,491)	7,925	343	4,777
Amounts reclassified from accumulated other comprehensive loss		(2,605)		(2,605)
	(3,491)	5,320	343	2,172

Net current period other comprehensive (loss) income				
Balances at March 31, 2013	$ (3,645)	$ (38,557)	$ (1,132)	$ (43,334)

Amounts reclassified from accumulated other comprehensive loss into income for effective portion of change in fair value of derivatives is recorded to interest expense in the consolidated statements of operations. Amounts reclassified from accumulated other comprehensive loss into income for the Company s proportionate share of equity investee s other comprehensive loss is recorded to equity in losses in unconsolidated investments in the consolidated statements of operations.

11. Fair Value Measurements

The Company s fair value measurements incorporate various factors, including the credit standing and performance risk of the counterparties, the applicable exit market, and specific risks inherent in the instrument. Nonperformance and credit risk adjustments on risk management instruments are based on current market inputs when available, such as credit default hedge spreads. When such information is not available, internal models may be used.

Assets and liabilities recorded at fair value in the combined financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to valuation of these assets or liabilities are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument s anticipated life.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuations technique and the risk inherent in the inputs to the model.

Short-term financial instruments consist principally of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and other accrued liabilities. Based on the nature and short maturity of these instruments their fair value is approximated using carrying

Table of Contents

cost and they are presented in the Company s financial statements at carrying cost. The fair values of cash and cash equivalents and restricted cash are classified as Level 1 in the fair value hierarchy. The fair values of accounts receivable, accounts payable and other accrued liabilities are classified as Level 2 in the fair value hierarchy.

The Company s financial assets and (liabilities) which require fair value measurement on a recurring basis are classified within the fair value hierarchy as follows (in thousands):

	Fair Value			
	Level 1	**Level 2**	**Level 3**	**Total**
March 31, 2014				
Interest rate swaps	$	$ (6,011)	$	$ (6,011)
Interest rate cap		507		507
Energy derivative			60,620	60,620
	$	$ (5,504)	$ 60,620	$ 55,116
December 31, 2013				
Interest rate swaps	$	$ 3,460	$	$ 3,460
Interest rate cap		681		681
Energy derivative			68,353	68,353
	$	$ 4,141	$ 68,353	$ 72,494

Level 2 Inputs

Derivative instruments subject to re-measurement are presented in the financial statements at fair value. The interest rate swaps and interest rate cap were valued by discounting the net cash flows using the forward LIBOR curve with the valuations adjusted by the counterparties credit default hedge rate. There were no transfers between Level 1 and Level 2 during the periods presented.

Level 3 Inputs

The fair value of the contingent liabilities is based upon the time of realization and the probability of the contingent event. An unobservable discount rate of 7% was used to determine the present value of the contractual liabilities and an unobservable probability factor of 75% was assigned to the contingent event prior to realization after considering contract terms, land rights, interconnect network, and environmental permits. The significant primary unobservable input used for contingent liabilities is the probability factor. Significant increases or decreases in this unobservable input would result in a significantly lower or higher fair value measurement.

The energy derivative instrument was valued by discounting the projected net cash flows over the remaining life of the derivative instrument using forward energy curves adjusted by a nonperformance risk factor. The significant unobservable input in calculating the fair value of the energy derivative instrument is forward electricity prices, which are derived from and impacted by changes in forward natural gas prices. Significant increases or decreases in this unobservable input would result in a significantly lower or higher fair value measurement.

The following table presents a reconciliation of contingent liabilities and the energy derivative contract measured at fair value, in thousands, on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2014 and 2013, respectively. There were no transfers between Level 2 and Level 3 during the periods presented.

	Contingent Liabilities Three months ended March 31, 2014	Contingent Liabilities Three months ended March 31, 2013	Energy Derivative Three months ended March 31, 2014	Energy Derivative Three months ended March 31, 2013
Balances, beginning of period	$	$ (8,001)	$ 68,353	$ 79,625
Settlements		8,001	(2,735)	(5,408)
Change in fair value, net of settlements			(4,998)	(1,395)
Balances, end of period	$	$	$ 60,620	$ 72,822

Table of Contents

The following table presents the carrying amount and fair value, in thousands, and the fair value hierarchy of the Company s financial liabilities that are not measured at fair value in the consolidated balance sheets as of March 31, 2014 and December 31, 2013, but for which fair value is disclosed.

	As reflected on the balance sheet	Fair Value Level 1	Level 2	Level 3	Total
March 31, 2014					
Long-term debt	$ 1,235,088	$	$ 1,162,316	$	$ 1,162,316
December 31, 2013					
Long-term debt	$ 1,249,218	$	$ 1,165,119	$	$ 1,165,119

Long term debt is presented on the consolidated balance sheets at amortized cost. The fair value of variable interest rate long-term debt is approximated by its carrying cost. The fair value of fixed interest rate long-term debt is estimated based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied, using the net present value of cash flow streams over the term using estimated market rates for similar instruments and remaining terms.

12. Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The Company recognizes deferred tax assets to the extent that the Company believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning and results of recent operations. If the Company determines that we would be able to realize deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company files income tax returns in various jurisdictions and is subject to examination by various tax authorities. The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with the related tax authority. The Company has a policy to classify interest and penalties associated with uncertain tax positions together with the related liability, and the expenses incurred related to such accruals, if any, are included as a component of income tax expense.

13. Stock-based Compensation

The Company accounts for stock-based compensation related to stock options granted to employees by estimating the fair value of the stock option awards using the Black-Scholes option-pricing model and amortizing the fair value over the applicable vesting period. The Company accounts for stock-based compensation related to restricted stock awards by measuring the fair value of the restricted stock awards at the grant date and amortizing the fair value on a straight line basis over the applicable vesting period.

Total stock-based compensation expenses for the three months ended March 31, 2014 and 2013 was $0.5 million and zero, respectively.

14. Earnings (Loss) per Share

The Company computes earnings per share (EPS) for Class A and Class B common stock using the two-class method for participating securities. The rights, including voting and liquidation rights, of the holders of the Class A and Class B common stock are identical, except with respect to dividends, as the Class B common stock is not entitled to dividends.

Basic EPS is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding, for each respective class of stock. Net income attributable to common stockholders is allocated to each class of common stock considering dividends declared or accumulated during the current period that must be paid for the current period and the allocation of undistributed earnings to the extent that each class of stock may share in earnings as if all of the earnings for the period had been distributed. Because our Class B shares are not entitled to dividends, undistributed earnings, if any, would be allocated entirely to the Class A shares.

Diluted EPS is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares and potentially dilutive common shares outstanding, for each respective class of stock. Potentially dilutive common stock includes the dilutive effect of the common stock underlying in-the-money stock options and is calculated based on the average share price for each period using the treasury stock method. Potentially dilutive common stock also reflects the dilutive effect of unvested restricted stock awards.

Table of Contents

Class B common stock is a contingently convertible security which is convertible to Class A common stock on a one-to-one basis on the later of December 31, 2014 or commencement of commercial operations of the South Kent wind project. The computation of diluted EPS of Class A common stock would include the impact of the conversion of the Class B common stock, if dilutive for Class A, using the if-converted method once the contingency surrounding the conversion has been met. On March 28, 2014, commercial operations commenced at the South Kent wind project and as a result, the outstanding Class B common stock will be converted to Class A common stock on December 31, 2014.

In periods of net loss, the loss is allocated by first considering any dividends declared or accumulated to Class A common stock. While Class B is not entitled to dividends, because it has the same voting, liquidation and residual rights as Class A, the remaining undistributed loss is allocated equally per share to weighted average Class A and Class B common stock outstanding during the year. For the three months ended March 31, 2014, 16.2 million potentially dilutive securities were excluded from the diluted EPS calculation as their effect is anti-dilutive.

The computations for basic and diluted loss per share are as follows:

		Three months ended March 31, 2014
Numerator for basic and diluted loss per share:		
Net loss attributable to controlling interest	$	(14,889)
Less: dividends declared		
Class A common stock		(11,179)
Class B common stock		
Undistributed loss	$	(26,068)
Denominator for basic and diluted loss per share:		
Weighted average number of shares:		
Class A common stock		35,533,166
Class B common stock		15,555,000
Total		51,088,166
Calculation of basic and diluted loss per share:		
Class A common stock:		
Dividends	$	0.31
Undistributed loss		(0.51)
Basic and diluted loss per share	$	(0.20)
Class B common stock:		
Dividends	$	
Undistributed loss		(0.51)
Basic and diluted loss per share	$	(0.51)

21

Table of Contents

15. Geographic Information

The table below provides information, by country, about the Company s combined operations. Revenue is recorded in the country in which it is earned and assets are recorded in the country in which they are located (in thousands):

	Revenue		Property, Plant and Equipment, net	
	Three months ended March 31,		March 31,	December 31,
	2014	2013	2014	2013
United States	$ 36,184	$ 33,107	$ 1,192,674	$ 1,210,319
Canada	13,286	10,730	251,880	265,823
Chile	79			
Total	$ 49,549	$ 43,837	$ 1,444,554	$ 1,476,142

16. Commitments and Contingencies

From time to time, the Company has become involved in claims and legal matters arising in the ordinary course of business. Management is not currently aware of any matters that will have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

Power Purchase Agreements

The Company has various PPAs that terminate from 2025 to 2039. The terms of the PPAs generally provide for the annual delivery of a minimum amount of electricity at fixed prices and in some cases include price escalation over the term of the respective PPAs. As of March 31, 2014, under the terms of the PPAs, the Company issued irrevocable letters of credit totaling $57.2 million to ensure its performance for the duration of the PPAs.

Project Finance Agreements

The Company has various project finance agreements which obligate the Company to provide certain reserves to enhance its credit worthiness and facilitate the availability of credit. As of March 31, 2014, the Company issued irrevocable letters of credit totaling $151.3 million, of which $47.1 million was from the Company s revolving credit facility, to ensure performance under these various project finance agreements.

Land Leases

The Company has entered into various long-term land lease agreements. As of March 31, 2014, total outstanding lease commitments were $108.2 million. During the three months ended March 31, 2014 and 2013, the Company recorded rent expense of $1.9 million and $1.6 million, respectively, in project expense in the consolidated statements of operations.

Operations and Maintenance

The Company has six operating projects that have entered into service and maintenance agreements with third party contractors to provide operations and maintenance services and incremental improvements for varying periods over the next twelve years. As of March 31, 2014, outstanding commitments with these vendors were $241.1 million, payable over the full term of these agreements.

Purchase Commitments

The Company has entered into various commitments with service providers related to the Company s projects and operations of its business. Outstanding commitments with these vendors, excluding turbine operations and maintenance commitments were $4.1 million as of March 31, 2014.

Purchase and Sales Agreements

On December 20, 2013, the Company entered into an agreement with Pattern Development to acquire approximately 80% of the ownership interest in Panhandle 2, a 182 MW wind project being built in Carson County, Texas, for approximately $122.9 million in cash. The acquisition, which includes assumption by the Company of certain tax indemnities, is expected to close in fourth quarter of 2014 upon completion of construction, and the Company expects to fund the purchase with available cash and credit facilities.

On December 20, 2013, the Company acquired a 45.0% interest in Grand from Pattern Development. Subject to the terms of this agreement, to the extent that the project makes a special distribution as result of construction cost underruns, the Company will make an additional contingent payment of up to $4.7 million to Pattern Development in 2014.

Capital Contribution Obligation

The Company is committed to providing additional capital funding of up to $2.5 million to its investment in El Arrayán to fund final construction costs.

Turbine Availability Warranties

In 2013, the Company entered into warranty settlements with a turbine manufacturer for blade related wind turbine outages. The warranty settlements provide for total liquidated damage payments of approximately $21.9 million for the year ended December 31, 2013. During the year ended December 31, 2013, the Company received payments of $24.1 million in connection with these warranty settlements. As of March 31, 2014, the Company recorded an accrued liability of $2.0 million related to the maximum future refund of liquidated damage payments to the turbine manufacturer. The warranty settlements received, net of the maximum potential future refund to the wind turbine manufacturer, have been recorded as other revenue in the consolidated statements of operations.

Table of Contents

Indemnity

The Company provides a variety of indemnities in the ordinary course of business to contractual counterparties and to our lenders and other financial partners. Hatchet Ridge agreed to indemnify the lender that provided financing for Hatchet Ridge against certain tax losses in connection with its sale-leaseback financing transaction in December 2010. The indemnity agreement is effective for the duration of the sale-leaseback financing.

The Company is party to certain indemnities for the benefit of the Spring Valley, Santa Isabel and Ocotillo project finance lenders. These indemnity obligations consist principally of indemnities that protect the project finance lenders from the potential effect of any recapture by the U.S. Department of the Treasury, or U.S. Treasury, of any amount of the ITC cash grants previously received by the projects. The ITC cash grant indemnity obligations guarantee amounts of any cash grant made to each of the respective projects that may subsequently be recaptured. In addition, the Company is also party to an indemnity of our Ocotillo project finance lenders in connection with certain legal matters, which is limited to the amount of certain related costs and expenses.

The Company agreed to indemnify third parties against certain tax losses in connection with monetization of tax credits under the Economic Incentives for the Development of Puerto Rico Act of May 28, 2008 up to a maximum amount of $7.2 million.

17. Related Party Transactions

From inception to October 1, 2013, the Company s project management and administrative activities were provided by Pattern Development. Costs associated with these activities were allocated to the Company and recorded in its consolidated statements of operations. Allocated costs include cash and non-cash compensation, other direct, general and administrative costs, and non-operating costs deemed allocable to the Company. Measurement of allocated costs is based principally on time devoted to the Company by officers and employees of Pattern Development. The Company believes the allocated costs presented in its consolidated statements of operations are a reasonable estimate of actual costs incurred to operate the business. The allocated costs are not the result of arms-length, free-market dealings.

Management Services Agreement and Shared Management

Effective October 2, 2013, the Company entered into a bilateral Management Services Agreement with Pattern Development which provides for the Company and Pattern Development to benefit, primarily on a cost-reimbursement basis, plus a 5% fee on certain direct costs, from the parties respective management and other professional, technical and administrative personnel, all of whom will report to and be managed by the Company s executive officers. Pursuant to the Management Services Agreement, where certain of the Company s executive officers, including its Chief Executive Officer, will also serve as executive officers of Pattern Development and devote their time to both the Company and Pattern Development as is prudent in carrying out their executive responsibilities and fiduciary duties. The Company refers to the employees who will serve as executive officers of both the Company and Pattern Development as the shared PEG executives. The shared PEG executives will have responsibilities for both the Company and Pattern Development and, as a result, these individuals will not devote all of their time to the Company s business. Under the terms of the Management Services Agreement, Pattern Development is required to reimburse the Company for an allocation of the compensation paid to such executives reflecting the percentage of time spent providing services to Pattern Development.

The table below presents allocated costs prior to October 2, 2013 and net bilateral management service cost reimbursements on and after October 2, 2013 included in the consolidated statements of operations (in thousands):

	Three months ended March 31,	
	2014	2013
Project expense	$	$ 556
Related party general and administrative	1,280	2,662
Related party income		
Management Services Agreement income	(628)	
Management Operation and Maintenance Agreement income	(68)	
Related party income	(696)	
Other income, net		(161)
Net expenses	$ 584	$ 3,057

Table of Contents

Prior to the Contribution Transactions, the Company had purchase arrangements with Pattern Development under which the latter purchased various services and supplies on behalf of the Company and received reimbursement for these purchases. The amounts payable to Pattern Development for these purchases were $1.2 million as of March 31, 2014 and December 31, 2013.

Letters of credit, indemnities and guarantees

Pattern Development agreed to guarantee $14.0 million of El Arrayán s payment obligations to a lender that has provided a $20 million credit facility for financing of El Arrayán s recoverable, construction-period value added tax payments. The remaining $6.0 million of the credit facility has been guaranteed by another investor in El Arrayán.

Purchase and Sales Agreements

On December 20, 2013, the Company entered into an agreement with Pattern Development to acquire approximately 80% of the ownership interest in Panhandle 2, a 182 MW wind project being built in Carson County, Texas, for approximately $122.9 million in cash. The acquisition is expected to close in the fourth quarter of 2014 upon completion of construction, and the Company expects to fund the purchase with available cash and credit facilities.

On December 20, 2013, the Company acquired a 45.0% equity interest in Grand from Pattern Development. Subject to the terms of this agreement, the Company may make an additional contingent payment of up to $4.7 million, as calculated based on final budget to actual amounts and distributions payable upon conversion of construction financing, to Pattern Development in 2014.

Puerto Rico Electric Power Authority (PREPA)

The Company s Santa Isabel project was in a dispute with PREPA over the appropriate rate being charged to the project for the electric services it uses. During the year ended December 31, 2013, the difference between what the Company believes is the appropriate monthly charge and PREPA s bill was resolved in principle, and billing is now per the understanding between the parties. Pattern Development provided the Company with an indemnity to mitigate the economic impact on the Company of this dispute.

Management fees

The Company provides management services and receives a fee for such services under an agreement with South Kent, Grand and El Arrayán, its joint venture investees. Management fees of $0.4 million and an immaterial amount were recorded as related party revenue in the consolidated statements of operations for the three months ended March 31, 2014 and 2013, respectively, and a related party receivable of $0.4 million and $0.2 million was recorded in the consolidated balance sheets as of March 31, 2014 and December 31, 2013, respectively. The Company eliminates the intercompany profit from management fees related to its ownership interest in the joint ventures.

The Company provides management, operations and maintenance services under an agreement with Panhandle Wind Holdings LLC beginning in 2014. The agreement has an initial term of ten years from the commencement of commercial operations. During the three months ended March 31, 2014, the Company recorded $0.1 million in related party income in the consolidated income statements. The Company did not incur any revenue under this agreement in the same period in the prior year.

18. Subsequent Events

On May 1, 2014, the Company entered into an agreement with a related party to acquire its ownership interests in Panhandle 1. The Company agreed to acquire a 179 MW interest in the 218 MW Panhandle 1 project following the commencement of commercial operations (the Panhandle 1 closing date), for approximately $125.0 million, subject to certain price adjustments based on final project size, design and modeling assumptions, to be funded on the Panhandle 1 closing date.

On April 30, 2014, the Company declared its second quarter 2014 dividend, payable on July 30, 2014, to holders of record on June 30, 2014, in the amount of $0.322 per Class A share, which represents $1.288 on an annualized basis, an increase from the first quarter 2014 dividend of $0.3125.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2013 and our unaudited consolidated financial statements for the three months ended March 31, 2014 and other disclosures (including the disclosures under Part