ICAD INC
Form 10-Q
May 09, 2013
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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, 2013

OR

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

For the transition period from __________ to __________

Commission file number 1-9341

iCAD, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**02-0377419**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
98 Spit Brook Road, Suite 100, Nashua, NH	**03062**
(Address of principal executive offices)	**(Zip Code)**

(603) 882-5200

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 requirement 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 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	¨ (do not check if a smaller reporting company)	Smaller reporting company	x

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 the close of business on May 7, 2013 there were 10,836,077 shares outstanding of the registrant s Common Stock, $.01 par value.

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iCAD, Inc.

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iCAD, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands except for share data)

	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 12,673	$ 13,948
Trade accounts receivable, net of allowance for doubtful accounts of $82 in 2013 and $48 in 2012	5,466	4,980
Inventory, net	1,773	2,119
Prepaid expenses and other current assets	558	486
Total current assets	20,470	21,533
Property and equipment, net of accumulated depreciation and amortization of $3,796 in 2013 and $3,627 in 2012	1,372	1,483
Other assets	585	638
Intangible assets, net of accumulated amortization of $11,174 in 2013 and $10,744 in 2012	14,801	15,230
Goodwill	21,109	21,109
Total assets	$ 58,337	$ 59,993
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,724	$ 1,940
Accrued and other expenses	2,933	4,142
Interest payable	553	499
Warrant liability	1,107	1,538
Deferred revenue	6,972	6,520
Total current liabilities	13,289	14,639
Deferred revenue, long-term portion	1,642	1,502
Other long-term liabilities	1,169	1,341
Notes payable	15,000	14,846
Total liabilities	31,100	32,328
Commitments and Contingencies (see Note 5)		
Stockholders equity:		
Preferred stock, $ .01 par value: authorized 1,000,000 shares; none issued.		
Common stock, $ .01 par value: authorized 85,000,000 shares; issued 11,021,908 in 2013 and 10,993,933 in 2012; outstanding 10,836,077 in 2013 and 10,808,102 in 2012	110	110
Additional paid-in capital	165,715	165,416
Accumulated deficit	(137,173)	(136,446)

Treasury stock at cost 185,831 in 2013 and 2012		(1,415)		(1,415)
Total stockholders equity		27,237		27,665
Total liabilities and stockholders equity	$	58,337	$	59,993

See accompanying notes to condensed consolidated financial statements.

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iCAD, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands except for per share data)

	Three Months Ended March 31,	
	2013	2012
Revenue:		
Products	$ 5,060	$ 4,051
Service and supplies	2,870	2,292
Total revenue	7,930	6,343
Cost of revenue:		
Products	1,355	1,107
Service and supplies	694	577
Amortization of acquired intangibles	233	232
Total cost of revenue	2,282	1,916
Gross profit	5,648	4,427
Operating expenses:		
Engineering and product development	1,866	2,212
Marketing and sales	2,438	2,646
General and administrative	1,672	1,595
Total operating expenses	5,976	6,453
Loss from operations	(328)	(2,026)
Gain from change in fair value of warrant	431	599
Interest expense	(826)	(835)
Other income	6	9
Other (expense) income, net	(389)	(227)
Loss before income tax expense	(717)	(2,253)
Income tax expense	(10)	(11)
Net loss and comprehensive loss	$ (727)	$ (2,264)
Net loss per share:		
Basic and diluted	$ (0.07)	$ (0.21)
Weighted average number of shares used in computing loss per share:		
Basic and diluted	10,820	10,776

See accompanying notes to consolidated financial statements.

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iCAD, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the three months ended March 31, 2013	2012
	(in thousands)	
Cash flow from operating activities:		
Net loss	$ (727)	$ (2,264)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	183	241
Amortization	430	523
Bad debt provision	35	
Gain from change in fair value of warrant	(431)	(599)
Loss on disposal of assets	25	51
Stock-based compensation expense	307	215
Amortization of debt discount and debt costs	198	227
Interest on settlement obligations	75	112
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(521)	(437)
Inventory	346	254
Prepaid and other current assets	(63)	(104)
Accounts payable	(215)	55
Accrued expenses	(1,403)	(1,909)
Deferred revenue	592	(258)
Total adjustments	(442)	(1,629)
Net cash used for operating activities	(1,169)	(3,893)
Cash flow from investing activities:		
Additions to patents, technology and other	(2)	(3)
Additions to property and equipment	(97)	(31)
Net cash used for investing activities	(99)	(34)
Cash flow from financing activities:		
Taxes paid related to restricted stock issuance	(7)	(9)
Proceeds from debt financing, net		14,325
Net cash (used for) provided by financing activities	(7)	14,316
Increase (decrease) in cash and equivalents	(1,275)	10,389
Cash and equivalents, beginning of period	13,948	4,576
Cash and equivalents, end of period	$ 12,673	$ 14,965

See accompanying notes to consolidated financial statements.

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iCAD, INC. AND SUBSIDIARY.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2013

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying condensed consolidated financial statements of iCAD, Inc. and subsidiary (iCAD or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position at March 31, 2013, the results of operations for the three month period ended March 31, 2013 and 2012, respectively, and cash flows for the three month period ended March 31, 2013 and 2012, respectively. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with US GAAP has been omitted as permitted by the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on February 27, 2013. The results for the three month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2013, or any future period.

Revenue Recognition

The Company recognizes revenue primarily from the sale of products and from the sale of services and supplies. Revenue is recognized when delivery has occurred, persuasive evidence of an arrangement exists, fees are fixed or determinable and collectability of the related receivable is probable. For product revenue, delivery has occurred upon shipment provided title and risk of loss has passed to the customer. Services and supplies revenue are considered to be delivered as the services are performed or over the estimated life of the supply agreement.

The Company recognizes revenue from the sale of its digital, film-based CAD and electronic brachytherapy (eBx) products and services in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Update No. 2009-13, *Multiple-Deliverable Revenue Arrangement*s (Accounting Standards Update ASU 2009-13) and ASC Update No. 2009-14, *Certain Arrangements That Contain Software Elements* (Update No. 2009-14). (ASU 2009-14). Revenue for the sale of certain CAD products is recognized in accordance with ASC 840 (*Leases*) (ASC 840). For multiple element arrangements, revenue is allocated to all deliverables based on their relative selling prices. In such circumstances, a hierarchy is used to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (BESP). VSOE generally exists only when the deliverable is sold separately and is the price actually charged for that deliverable. The process for determining BESP for deliverables without

iCAD, INC. AND SUBSIDIARY.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2013

VSOE or TPE considers multiple factors including relative selling prices; competitive prices in the marketplace, and management judgment, however, these may vary depending upon the unique facts and circumstances related to each deliverable.

The Company primarily uses customer purchase orders that are subject to the Company s terms and conditions or, in the case of an Original Equipment Manufacturer (OEM) are governed by distribution agreements. In accordance with our distribution agreements, the OEM does not have a right of return, and title and risk of loss passes to the OEM upon shipment. The Company generally ships Free On Board shipping point and uses shipping documents and third-party proof of delivery to verify delivery and transfer of title. In addition, the Company assesses whether collection is probable by considering a number of factors, including past transaction history with the customer and the creditworthiness of the customer, as obtained from third party credit references.

If the terms of the sale include customer acceptance provisions and compliance with those provisions cannot be demonstrated, all revenue is deferred and not recognized until such acceptance occurs. The Company considers all relevant facts and circumstances in determining when to recognize revenue, including contractual obligations to the customer, the customer s post-delivery acceptance provisions, if any, and the installation process.

The Company has determined that iCAD s Digital, MRI and film based sales generally follow the guidance of FASB ASC Topic 605 *Revenue Recognition* (ASC 605) as the software has been considered essential to the functionality of the product per the guidance of ASU 2009-14. Typically, the responsibility for the installation process lies with the OEM partner. When iCAD is responsible for product installation, the installation element is considered a separate unit of accounting because the delivered product has stand-alone value to the customer. In these instances, the Company allocates the deliverables based on the framework established within ASU 2009-13. Therefore, the installation and training revenue is recognized as the services are performed according to the VSOE of the element. Revenue from the Digital, MRI and film based equipment when there is installation is recognized based on the relative selling price allocation of the BESP.

Sales of the Company s eBx product typically include a controller, accessories, and service and source agreements. The Company allocates revenue to the deliverables in the arrangement based on the BESP in accordance with ASU 2009-13. Product revenue is generally recognized when the product has been delivered and service and source revenue is typically recognized over the life of the service and source agreement.

The Company defers revenue from the sale of service contracts related to future periods and recognizes revenue on a straight-line basis in accordance with ASC Topic 605-20, *Services* . The Company provides for estimated warranty costs on original product warranties at the time of sale.

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iCAD, INC. AND SUBSIDIARY.

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(Unaudited)

March 31, 2013

Cost of Revenue

Cost of revenue consists of the costs of products purchased for resale, cost relating to service including costs of service contracts to maintain equipment after the warranty period, product installation, training, customer support, certain warranty repair costs, inbound freight and duty, manufacturing, warehousing, material movement, inspection, scrap, rework, depreciation and in-house product warranty repairs. In the quarter ended March 31, 2013, the Company included in cost of revenue, approximately $137,000 of expense related to the newly enacted Medical Device Excise tax.

Note 2 - Net Loss per Common Share

The Company s basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period and, if there are dilutive securities, diluted loss per share is computed by including common stock equivalents which includes shares issuable upon the exercise of stock options, net of shares assumed to have been purchased with the proceeds, using the treasury stock method.

A summary of the Company s calculation of net loss per share is as follows:

	Three Months Ended March 31,	
	2013	**2012**
Net loss	**$ (727)**	**$ (2,264)**
Basic shares used in the calculation of net loss per share	10,820	10,776
Effect of dilutive securities:		
Stock options		
Restricted stock		
Diluted shares used in the calculation of net loss per share	10,820	10,776
Net loss per share - basic	$ (0.07)	$ (0.21)
Net loss per share - diluted	$ (0.07)	$ (0.21)

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iCAD, INC. AND SUBSIDIARY.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2013

The shares of the Company s common stock, issuable upon the exercise of stock options and warrants and vesting of restricted stock that were excluded from the calculation of diluted net loss per share because their effect would have been antidilutive is as follows:

	Period Ended March 31,	
	2013	2012
Stock Options	1,426,077	1,240,405
Warrants	550,000	550,000
Restricted Stock	220,250	82,297
Stock options, warrants and restricted stock	2,196,327	1,872,702

Note 3 - Long Term Debt

On December 29, 2011, the Company entered into several agreements with entities affiliated with Deerfield Management, a healthcare investment fund (Deerfield), pursuant to which Deerfield agreed to provide $15 million in funding to the Company. Pursuant to the terms of a Facility Agreement, dated as of December 29, 2011 (the Facility Agreement), on January 6, 2012 (the Funding Date), the Company issued to Deerfield promissory notes in the aggregate principal amount of $15 million (the Note). Under a Revenue Purchase Agreement, dated as of December 29, 2011 (the Revenue Purchase Agreement), the Company agreed to pay Deerfield a portion of the Company s revenues until the maturity date of the Note, whether or not the Note is outstanding through that date. On the Funding Date, the Company issued to Deerfield (i) six-year warrants to purchase up to 450,000 shares of common stock at an exercise price of $3.50 per share (the Warrants) and (ii) a second Warrant (the B Warrant) to purchase an additional 100,000 shares of common stock at an exercise price of $3.50 per share, which may become exercisable if certain conditions are met, as described in the Warrants. Collectively, these transactions are referred to as the Transactions. On the Funding Date, the Company received net proceeds of $14,325,000 from the Transactions, representing $15,000,000 of gross proceeds, less a $225,000 facility fee and a $450,000 finder s fee before deducting other expenses of the Transactions.

The Facility Agreement has been accounted for as debt pursuant to ASC 470, *Debt* (ASC 470). The Facility Agreement had an original issue discount of approximately $4.1 million and an additional value allocated to the warrants of approximately $1.0 million. The discount is being accreted to the $15.0 million face value of the Note using the effective interest method with an effective interest rate of 17.35% based on the discount of approximately $5.1 million.

The original issue discount of approximately $4.1 million was assigned to the Revenue Purchase Agreement. Under this agreement, the Company is obligated to pay 4.25% of annual revenues up to $25 million, 2.75% of annual revenues from $25 million to $50 million during 2013 and 2014, and 2.25% of annual revenues during 2015, 2016 and if the Facility Agreement is extended, in 2017, and 1.0% of annual revenues in excess of $50 million. The $4.1 million discount assigned to the Revenue Purchase Agreement was capitalized as debt in accordance with ASC 470-10-25, *Sales of Future Revenues or Various Other Measures of Income* . The Company has estimated the cash flows associated with the Revenue Purchase Agreement and is amortizing the discount to interest expense over the expected term of the arrangement at an effective amortization rate of approximately 23.6%.

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The overall effective interest rate of the financing arrangement, excluding changes in the fair value of the warrants, is currently estimated to be approximately 19%.

The Warrants have been classified as debt in accordance with ASC 480 *Distinguishing Liabilities from Equity* , as the Warrants contain a feature whereby the Company could be required to redeem the Warrants for cash upon the occurrence of a major transaction, as defined in the Warrants. The value of the Warrants was determined using a binomial lattice model. The Warrant is being valued at fair value at each reporting period with changes in fair value recorded in the consolidated statement of operations (see Note 6).

The Company determined that the B Warrant does not have any value as of the Funding Date, as the B Warrant is exercisable upon the Company s election to extend the Facility Agreement. The Company does not plan to extend the Facility Agreement at this time. If the Company determines it will extend the Facility Agreement, the value of the B Warrant will be determined using the binomial lattice model at such time.

The following amounts are included in the consolidated balance sheet as of March 31, 2013 related to the Facility Agreement and Revenue Purchase Agreement:

Principal Amount of Facility Agreement	$ 15,000
Unamortized discount	(3,943)
Carrying amount of Facility Agreement	11,057
Revenue Purchase Agreement	3,943
Notes payable total	$ 15,000

The following amounts comprise interest expense included in our consolidated statement of operations for the three months ended March 31, 2013 and 2012:

	Three months ended March 31, 2013	2012
Cash interest expense	$ 553	$ 496
Non-cash amortization of debt discount	154	187
Amortization of debt costs	44	40
Amortization of settlement obligations	75	112
Total interest expense	$ 826	$ 835

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iCAD, INC. AND SUBSIDIARY.

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(Unaudited)

March 31, 2013

Cash interest expense represents the amount of interest expected to be paid in cash under the Facility agreement and the Revenue Purchase Agreement, which represents the interest of 5.75% on the Facility Agreement and the expected cash payments on the Revenue Purchase Agreement for the period. Non-cash amortization is the amortization of the discount on the Facility Agreement. The amortization of debt costs represents the costs incurred with the financing, which is primarily the facility fee and the finder s fee which has been capitalized and, is expensed using the effective interest method. The amortization of the settlement obligations represent the interest associated with the settlement agreements for both Carl Zeiss Meditec AG and Hologic, Inc.

Note 4 - Stock-Based Compensation

The Company follows the guidance in ASC Topic 718, *Compensation - Stock Compensation* , (ASC 718).

Options granted under the Company s stock incentive plans were valued utilizing the Black-Scholes model using the following assumptions and had the following fair values (prior period amounts have been adjusted for the reverse split):

	Three Months Ended March 31,	
	2013	**2012**
Average risk-free interest rate	0.58%	1.75%
Expected dividend yield	None	None
Expected life	3.5 years	3.5 years
Expected volatility	61.5% to 68.9%	68.5% to 68.8%
Weighted average exercise price	$5.15	$2.90
Weighted average fair value	$2.28	$1.45

As of March 31, 2013 unrecognized compensation cost related to unexercisable options and unvested restricted stock and the weighted average remaining period is as follows:

Remaining expense	$ 2,123,782
Weighted average term	1.22 years

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iCAD, INC. AND SUBSIDIARY.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2013

The Company s aggregate intrinsic value for stock options and restricted stock outstanding is as follows:

	Three Months Ended March 31,	
Aggregate intrinsic value	**2013**	**2012**
Stock options	$ 1,962,883	$
Restricted stock	1,099,048	202,000

Note 5 - Commitments and Contingencies

Foreign Tax Claim

In July 2007, a dissolved former Canadian subsidiary of the Company, CADx Medical Systems Inc. (CADx Medical), received a tax re-assessment of approximately $6,800,000 from the Canada Revenue Agency (CRA) resulting from CRA s audit of CADx Medical s Canadian federal tax return for the year ended December 31, 2002. In February 2010 the CRA reviewed the matter and reduced the tax re-assessment to approximately $703,000, excluding interest and penalties. The Company believes that it is not liable for the re-assessment against CADx Medical and no accrual has been recorded for this matter as of March 31, 2013.

Settlement Obligations

In connection with the acquisition of Xoft, the Company recorded a royalty obligation pursuant to a settlement agreement entered into between Xoft and Hologic in August 2007. Xoft received a nonexclusive, irrevocable, perpetual, worldwide license, including the right to sublicense certain Hologic patents, and a non-compete covenant as well as an agreement not to seek further damages with respect to the alleged patent violations. In return, the Company has a remaining obligation to pay a minimum annual royalty payment to Hologic, of $250,000 payable through 2016. In addition to the minimum annual royalty payments, the litigation settlement agreement with Hologic also provided for payment of royalties based upon a specified percentage of future net sales on any products that practice the licensed rights. The estimated fair value of the patent license and non-compete covenant is $100,000 and is being amortized over the estimated remaining useful life of approximately six years. In addition, a liability has been recorded within accrued expenses and long-term settlement cost for future payment and for future minimum royalty obligations totaling $725,000. The Company recorded interest expense of approximately $30,000 and $35,000 in the three months ended March 31, 2013, and 2012, respectively, related to this obligation.

On December 22, 2011, the Company agreed to a settlement related to the litigation with Carl Zeiss Meditec AG. The Company determined that this settlement should be recorded as a measurement period adjustment and accordingly recorded the present value of the litigation to the opening balance sheet of Xoft. The present value of the liability was estimated at approximately $1.8 million as of December 31, 2011. The Company is obligated to pay $0.5 million in June 2013, $0.5 million in June 2015 and $0.5 million in June 2017, for a

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iCAD, INC. AND SUBSIDIARY.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2013

total of $1.5 million. As of March 31, 2013, the remaining liability recorded within accrued expenses and long-term settlement cost for future payment and for future minimum royalty obligations is $1.1 million. The Company recorded interest expense of approximately $45,000 and $77,000 in the three months ended March 31, 2013, and 2012, respectively related to this obligation.

Litigation

On February 18, 2011, in the Orange County Superior Court (Docket No. 30-2011-00451816-CU-PL-CXC), named plaintiffs Jane Doe and John Doe filed a complaint against Xoft, the Company, and Hoag Memorial Hospital Presbyterian asserting causes of action for general negligence, breach of warranty, and strict liability and seeking unlimited damages in excess of $25,000. On March 2, 2011, the Company received a Statement of Damages - specifying that the damages being sought aggregated an amount of at least approximately $14.5 million. On April 6, 2011, plaintiffs Jane Doe and John Doe amended their complaint alleging only medical malpractice against Hoag Memorial Hospital Presbyterian. On April 8, 2011, another complaint was filed in the Orange County Superior Court (Docket No. 30-2011-00465448-CU-MM-CXC) on behalf of four additional Jane Doe plaintiffs and two John Doe spouses with identical allegations against the same defendants. One John Doe spouse from this group of plaintiffs was later dismissed on August 18, 2011. On April 19, 2011, a sixth Jane Doe plaintiff filed an identical complaint in the Orange County Superior Court (Docket No. 30-2011-00468687-CU-MM-CXC), and on May 4, 2011, a seventh Jane Doe plaintiff and John Doe spouse filed another complaint in the Orange County Superior Court (Docket No. 30-2011-00473120-CU-PO-CXC), again with identical allegations against the same defendants. On July 12, 2011, an eighth Jane Doe plaintiff and John Doe spouse filed a complaint in the Orange County Superior Court (Docket No. 30-2011-00491068-CU-PL-CXC), and on July 14, 2011, a ninth Jane Doe plaintiff and John Doe spouse filed another complaint in the Orange County Superior Court (Docket No. 30-2011-00491497-CU-PL-CXC), each with identical allegations as the previously filed complaints. On August 18, 2011, these two groups of Jane Doe plaintiffs and John Doe spouses amended their complaints to correct certain deficiencies. Additionally on August 18, 2011, a tenth Jane Doe plaintiff and two additional John Doe spouses filed a complaint in the Orange County Superior Court (Docket No. 30-2011-501448-CU-PL-CXC), again with identical allegations against the same defendants. On January 18, 2012, three additional Jane Doe plaintiffs and one additional John Doe spouse filed a complaint in the Orange County Superior Court (Docket No. 30-2012-00538423-CU-PL-CXC) with identical allegations against the same defendants. On April 11, 2012, the above-referenced cases were consolidated for all purposes, excluding trial. On May 2, 2012, plaintiffs filed a master consolidated complaint, with the same case number as the original filed complaint. On August 2, 2012, plaintiffs filed fictitious name amendments adding defendants, Mel Silverstein, M.D., Peter Chen, M.D., Lisa Guerrera, M.D., Ralph Mackintosh, Ph.D., Robert Dillman, M.D., and Jack Cox. On September 14, 2012, an additional Jane Doe plaintiff and John Doe spouse filed a complaint in the Orange County Superior Court (Docket No. 30-2012-00598740-CU-PL-CXC) with identical allegations as plaintiffs above against the same original

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(Unaudited)

March 31, 2013

defendants. On October 17, 2012, plaintiff John Doe No. 11 dismissed his complaint, with prejudice, as to all defendants. On November 26, 2012, plaintiffs filed an additional fictitious name amendment adding defendant, American Ceramic Technology, Inc. On January 15, 2013, plaintiffs filed a dismissal, with prejudice, as to defendant, Mel Silverstein, M.D., only. It is alleged that each Jane Doe plaintiff was a patient who was treated with the Axxent Electronic Brachytherapy System that incorporated the Axxent Flexishield Mini. The Company believes that all of the Jane Doe plaintiffs were part of the group of 29 patients treated using the Axxent Flexishield Mini as part of a clinical trial. The Axxent Flexishield Mini was the subject of a voluntary recall. These claims are still in the early stages. Based upon our preliminary analysis, we plan to vigorously defend the lawsuits, however, a loss is reasonably possible. Since the amount of the potential damages in the event of an adverse result is not reasonably estimable, we are unable to estimate a range of loss and no expense has been recorded with respect to the contingent liability associated with this matter.

Note 6 - Fair Value Measurements

The Company follows the provisions of ASC Topic 820, *Fair Value Measurement and Disclosures*, (ASC 820). This topic defines fair value, establishes a framework for measuring fair value under US GAAP and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value.

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable and certain accrued liabilities and our notes payable. The carrying amounts of our cash and cash equivalents (which are comprised primarily of deposit and overnight sweep accounts), accounts receivable, accounts payable and certain accrued liabilities approximate fair value due to the short maturity of these instruments. The carrying value of our notes payable approximates fair value.

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iCAD, INC. AND SUBSIDIARY.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2013

The Company s assets that are measured at fair value on a recurring basis relate to the Company s money market accounts. The Company s liabilities that are measured at fair value on a recurring basis relate to contingent consideration resulting from the acquisition of Xoft and the Warrants issued in connection with the Deerfield Facility Agreement.

The Company s money market funds are included in cash and cash equivalents in the accompanying balance sheet, and are considered a Level 1 investment as they are valued at quoted market prices in active markets.

The following table sets forth Company s assets and liabilities which are measured at fair value on a recurring basis by level within the fair value hierarchy.

Fair value measurements using: (000 s) as of December 31, 2012

	Level 1	Level 2	Level 3	Total
Assets				
Money market accounts	$ 12,336	$	$	$ 12,336
Total Assets	$ 12,336	$	$	$ 12,336
Liabilities				
Contingent Consideration	$	$	$	$
Warrant Liability			1,538	1,538
Total Liabilities	$	$	$ 1,538	$ 1,538

Fair value measurements using: (000 s) as of March 31, 2013

	Level 1	Level 2	Level 3	Total
Assets				
Money market accounts	$ 11,044	$ 0	$ 0	$ 11,044
Total Assets	$ 11,044	$ 0	$ 0	$ 11,044
Liabilities				
Contingent Consideration	$	$	$	$
Warrant Liability			1,107	1,107
Total Liabilities	$	$	$ 1,107	$ 1,107

The fair value of contingent consideration is a Level 3 liability and was determined to be $0 at December 31, 2012 and March 31, 2013, as the Company does not expect to meet the revenue thresholds for the Xoft transaction.

As discussed in Note 3, the Company issued 450,000 warrants which were immediately exercisable and therefore were valued as of the Funding Date. The warrant liability for the

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iCAD, INC. AND SUBSIDIARY.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2013

warrants associated with the debt was valued using the binomial lattice-based valuation methodology because that model embodies all of the relevant assumptions that address the features underlying these instruments. Significant assumptions in valuing the warrant liability were as follows as of December 31, 2012 and March 31, 2013.

	March 31, 2013	December 31, 2012
Warrants		
Exercise price	$ 3.50	$ 3.50
Volatility	42.5%	82.4%
Equivalent term (years)	4.77	5.00
Risk-free interest rate	0.9%	0.8%

The volatility was determined based on the definition in the Warrants, the risk-free interest rate was determined using the six year LIBOR rate as of the measurement date.

In addition the other significant assumptions include the probability of voluntary exercise versus a major transaction (as defined in the Warrants); and assuming a major transaction, the probability of cashless major exercise; and assuming a cashless major exercise, the annual probabilities for a major transaction. The Company has estimated a low probability of these items as of March 31, 2013.

The following sets forth a reconciliation of the changes in the fair value of warrants payable during the period:

Three months ended March 31, 2013	
Balance as of December 31, 2012	$ 1,538
Fair value adjustment	(431)
Balance as of March 31, 2013	**$ 1,107**

Items Measured at Fair Value on a Nonrecurring Basis

Certain assets, including our goodwill, are measured at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be impaired. We did not consider any assets to be impaired during the three months ended March 31, 2013.

Note 7 - Income Taxes

At March 31, 2013, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required under ASC 740, *Income Taxes*. The Company does not expect that the unrecognized tax benefits will materially increase

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iCAD, INC. AND SUBSIDIARY.

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(Unaudited)

March 31, 2013

within the next twelve months. The Company did not recognize any interest or penalties related to uncertain tax positions at March 31, 2013. The Company files United States federal income tax returns and income tax returns in various states and local jurisdictions. The Company s three preceding tax years remain subject to examination by federal and state taxing authorities. In addition, because the Company has net operating loss carry forwards, The Internal Revenue Service and state jurisdictions are permitted to audit earlier years and propose adjustments up to the amount of net operating loss generated in those years. The Company is not under examination by any other federal or state jurisdiction for any tax years.

Note 8 - Goodwill

In accordance with FASB ASC Topic 350-20, *Intangibles - Goodwill and Other* , (ASC 350-20), the Company tests goodwill for impairment on an annual basis and between annual tests if events and circumstances indicate it is more likely than not that the fair value of the Company is less than the carrying value of the Company.

The Company s goodwill arose in connection with its acquisitions in June 2002, December 2003 and December 2010. The Company operates in one segment and one reporting unit since operations are supported by one central staff and the results of operations are evaluated as one business unit. In general, the Company s medical device products are similar in nature based on production, distribution, services provided and regulatory requirements.

The Company measures the fair value of its reporting unit by comparing its market capitalization calculated based on the quoted closing share price of the Company s common stock, using a reasonable control premium, multiplied by the number of shares outstanding at each reporting period (the Market Approach). If the fair value of the reporting unit is less than carrying value based on the above measure, the Company will then embark upon a Step 1 approach to determine the fair value of the reporting unit using a discounted cash flow (Income Approach). On an interim basis the Company may also use a discounted cash flow analysis to corroborate the control premium, to provide greater assurance that the Market Approach is reflective of fair value. The Company has consistently applied a control premium from period to period, and the premium is supported by industry transaction data of premiums potential acquirers would pay to gain control of the Company.

The Company assesses the potential impairment of goodwill on an annual basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors management considers important, which could trigger an impairment of such asset, include the following:

significant underperformance relative to historical or projected future operating results;

significant changes in the manner or use of the assets or the strategy for our overall business;

significant negative industry or economic trends;

significant decline in our stock price for a sustained period; and

a sustained decline in our market capitalization below net book value.

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iCAD, INC. AND SUBSIDIARY.

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(Unaudited)

March 31, 2013

At October 1, 2012 (the date of the last annual impairment assessment), fair value, using the Market Approach exceeded carrying value by approximately $0.1 million. The Company also assessed fair value using an Income Approach which was approximately $39.2 million and exceeded carrying value by approximately $8.8 million. Accordingly, the Company did not evaluate goodwill using the second step (Step 2) of the goodwill impairment test as fair value exceeded carrying value.

At March 31, 2013 with a reasonable control premium, fair value using the Market Approach was approximately $70.3 million which exceeded carrying value by approximately $43.0 million.

The Company concluded there were no triggering events as of March 31, 2013.

The carrying amount of goodwill for the quarter ended March 31, 2013 was approximately $21.1 million.

Note 9 - Recent Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update (ASU) 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, an amendment to FASB ASC Topic 220. The update requires disclosure of amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present either on the face of the statement of operations or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. The Company adopted the disclosure requirements of this ASU for the quarter ending March 31, 2013 and the disclosure had no impact on the financial statements.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Certain information included in this Item 2 and elsewhere in this Form 10-Q that are not historical facts contain forward looking statements that involve a number of known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward looking statements. These risks and uncertainties include, but are not limited to, uncertainty of future sales and expense levels, protection of patents and other proprietary rights, the impact of supply and manufacturing constraints or difficulties, regulatory changes and requirements applicable to our products, product market acceptance, possible technological obsolescence of products, increased competition, integration of the acquired businesses, the impact of litigation and/or government regulation, changes in Medicare reimbursement policies, competitive factors, the effects of a decline in the economy in markets served by the Company and other risks detailed in the Company s other filings with the Securities and Exchange Commission. The words believe , plan , intend , expect , estimate , anticipate , likely , seek , should , would , could and similar expressions identify forward-looking statements. Readers cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date the statement was made.

Results of Operations

Overview

iCAD is an industry-leading provider of advanced image analysis, workflow solutions and radiation therapy solutions for the early identification and treatment of cancer.

The Company has grown primarily through acquisitions including CADx, Qualia Computing, CAD Sciences and Xoft to become a broad player in the oncology market. Its industry-leading solutions include advanced image analysis and workflow solutions that enable healthcare professionals to better serve patients by identifying pathologies and pinpointing the most prevalent cancers earlier, a comprehensive range of high-performance, upgradeable Computer-Aided Detection (CAD) systems and workflow solutions for mammography, Magnetic Resonance Imaging (MRI) and Computed Tomography CT, and an isotope-free cancer treatment platform technology.

The Company intends to continue the extension of its superior image analysis and clinical decision support solutions for mammography, MRI and CT imaging. iCAD believes that advances in digital imaging techniques should bolster its efforts to develop additional commercially viable CAD/advanced image analysis and workflow products. The Company s belief is that early detection in combination with earlier targeted intervention will provide patients and care providers with the best tools available to achieve better clinical outcomes resulting in a market demand that will drive top line growth.

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The Company s headquarters are located in Nashua, New Hampshire, with manufacturing and contract manufacturing facilities in New Hampshire and Massachusetts, a research and development facility in Ohio and, an operations, research, development, manufacturing and warehousing facility in San Jose, California.

Critical Accounting Policies

The Company s discussion and analysis of its financial condition, results of operations, and cash flows are based on the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates these estimates, including those related to accounts receivable allowance, inventory valuation and obsolescence, intangible assets, income taxes, warranty obligations, contingencies and litigation. Additionally, the Company uses assumptions and estimates in calculations to determine stock-based compensation. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a comprehensive list of the Company s critical accounting policies, reference should be made to the Annual Report on Form 10-K for the year ended December 31, 2012 filed on February 27, 2013.

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Three months ended March 31, 2013 compared to the three months ended March 31, 2012

Revenue:

Three months ended March 31, 2013:

Total revenue for the three month period ended March 31, 2013 was $7.9 million compared with revenue of $6.3 million for the three month period ended March 31, 2012, an increase of approximately $1.6 million, or 25%. The increase in revenue was primarily due to an increase from the electronic brachytherapy products, an increase in service and supply revenue and an increase in digital and MRI revenues offset by a reduction in film based revenues.

	Three months ended March 31,			
	2013	2012	Change	% Change
Digital & MRI revenue	$ 2,428	$ 2,190	$ 238	10.9%
Film based revenue	245	427	(182)	(42.6)%
Electronic Brachytherapy	2,387	1,434	953	66.5%
Service & supply revenue	2,870	2,292	578	25.2%
Total revenue	$ 7,930	$ 6,343	$ 1,587	25.0%

Our Digital and MRI CAD revenue for three month period ended March 31, 2013 increased $0.2 million or 11.0%, to $2.4 million compared to revenue of $2.2 million in the three month period ended March 31, 2012. The increase was due primarily to an increase in sales to our OEM partners.

Revenue from iCAD s film based products decreased 42.6% or $182,000, to $245,000 in the three month period ended March 31, 2013 from $427,000 in the three month period ended March 31, 2012. Film based revenues have steadily declined, reflecting the shift from analog to digital technology.

Revenue from our Axxent Electronic Brachytherapy System and accessories was $2.4 million in the three month period ended March 31, 2013 an increase of 66.5% or $1.0 million from $1.4 million for the three month period ended March 31, 2012. Demand for the Axxent Electronic Brachytherapy System improved during the quarter, with sales increases for the controllers as well as the related accessories. Demand for the Axxent Electronic Brachytherapy System has continued to increase both for its use in the intra-operative radiation therapy (IORT) market, and for application in the treatment of non-melanoma skin cancers. Revenue growth for electronic brachytherapy products was also enhanced by continued sales increases for balloon and surface applicators, which we believe is based on market adoption of the systems resulting in increased procedure volumes.

Service and supply revenue increased 25.2%, or $0.6 million in the three month period ended March 31, 2013, to $2.9 million compared to $2.3 million in three months ended March 31, 2012. Service and supply revenue relating to our digital CAD and TotalLookMammoAdvantage (TLMA) systems was approximately $2.0 million for the three month period ended March 31, 2013 and increased by $0.3 million from $1.7 million as compared to the three months ended March 31, 2012. The increase in CAD service and supply revenue is due primarily to increases in

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Platinum service contracts, which was offset slightly by the decrease in TLMA service contracts, as Platinum replaces TLMA contracts. Service and supply revenue in the first quarter of 2013 included approximately $0.9 million related to the Axxent Electronic Brachytherapy products, which represented an increase of $0.3 million or 59.0% as compared to $0.6 million in the three months ended March 31, 2012. Service and supply revenue related to our electronic brachytherapy products increased primarily due to increases in service and source agreements related to sales of the electronic brachytherapy system. We expect service and supply revenue for our electronic brachytherapy products to increase as our installed base of electronic brachytherapy products increases.

Gross Profit:

	Three months ended March 31,			
	2013	**2012**	**Change**	**% Change**
Products	$ 1,355	$ 1,107	$ 248	22.4%
Service & supply	694	577	117	20.3%
Amortization of acquired technology	233	232	1	0.4%
Total cost of revenue	$ 2,282	$ 1,916	$ 366	19.1%
Gross profit	$ 5,648	$ 4,427	$ 1,221	27.6%
Gross profit %	71.2%	69.8%		

Gross profit for the three month period ended March 31, 2013 was $5.6 million, or 71.2% of revenue as compared to $4.4 million or 69.8% of revenue in the three month period ended March 31, 2012. Gross profit percent increased primarily due to changes in the mix of business driven by the increases in revenues from Digital,MRI products, and electronic brachytherapy products which have absorbed costs related to the fixed cost of our manufacturing operations. Gross profit percent is also impacted by amortization of acquired technology, and the impact of the medical device excise tax implemented as of January 1, 2013 which represented an additional $137,000 of expense as compared to the quarter ended March 31, 2012.

Operating Expenses:

	Three months ended March 31,			
	2013	2012	Change	Change %
Operating expenses:				
Engineering and product development	$ 1,866	$ 2,212	$ (346)	(15.6)%
Marketing and sales	2,438	2,646	(208)	(7.9)%
General and administrative	1,672	1,595	77	4.8%
Total operating expenses	$ 5,976	$ 6,453	$ (477)	(7.4)%

Engineering and Product Development. Engineering and product development costs for the three month period ended March 31, 2013 decreased by $0.3 million or 15.6%, from $2.2 million in 2012 to $1.9 million in 2013. The decrease in engineering and product development costs was primarily due to a decrease in consulting and subcontracting costs of approximately $280,000 combined with a reduction in personnel costs and depreciation expense.

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Marketing and Sales. Marketing and sales expenses decreased by $0.2 million or 7.9%, from $2.6 million in the three month period ended March 31, 2012 to $2.4 million in three month period ended March 31, 2013. The decrease in marketing and sales expenses primarily resulted from reductions in tradeshow and consulting expenses as compared to the three months ended March 31, 2012.

General and Administrative. General and administrative expenses increased by $77,000 or 4.8%, from $1.6 million in the three month period ended March 31, 2012 to $1.7 million in the three month period ended March 31, 2013. The increase in general and administrative expense is primarily due to an increase in personnel costs, stock compensation and bad debt expense offset by a decrease in amortization expense as compared to the three months ended March 31, 2012.

Other Income and Expense:

	Three months ended March 31,			
	2013	2012	Change	Change %
Gain from change in fair value of Warrant	$ 431	$ 599	(168)	(28.0)%
Interest expense	(826)	(835)	9	(1.1)%
Other income	7	9	(2)	(22.2)%
	$ (388)	$ (227)	$ (161)	70.9%

Gain from change in fair value of Warrants. The $431,000 and $599,000 gain from the change in fair value of the warrants for the period ended March 31, 2013 and 2012, respectively, resulted from a decrease in the fair value of the Warrants under the binomial lattice based valuation methodology, due primarily to an decrease in volatility, which is one of the key assumptions in determining the value of the warrants. We expect the value of the Warrants to continue to fluctuate as changes in volatility which is driven by changes in our stock price, can have a significant impact on the value of the Warrants.

Interest Expense. Interest expense of $826,000 decreased by $9,000 or 1.1% for the three month period ended March 31, 2013 as compared to interest expense of $835,000 in the three month period ended March 31, 2012. Interest expense is due primarily to interest expense related to the credit facility entered into with certain entities affiliated with Deerfield Management. Interest related to the Hologic and Zeiss settlement obligations was $75,000 in the three months ended March 31, 2013 as compared to $112,000 in the same period in 2012.

Interest Income. Interest income of $7,000 and $9,000 for the quarters ended March 31, 2013, and 2012, respectively reflects income earned from our money market accounts.

Liquidity and Capital Resources

We believe that our current liquidity and capital resources are sufficient to sustain operations through at least the next 12 months, primarily due to cash on hand and projected cash generation from operations. Our ability to generate cash that is adequate to meet our future capital requirements will depend primarily on operating cash flow. If sales or cash collections are reduced from current expectations, or if expenses and cash requirements are increased, we may require additional financing, although there are no guarantees that we will be able to obtain the financing if necessary, on acceptable terms or at all.

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As of March 31, 2013, the Company had cash and cash equivalents of $12.7 million, current assets of $20.5 million, current liabilities of $13.3 million and working capital of $7.2 million. The ratio of current assets to current liabilities was 1.54:1.

On December 29, 2011, we entered into several agreements with entities affiliated with Deerfield pursuant to which Deerfield agreed to provide $15 million in funding to the Company. Pursuant to the terms of the Facility Agreement, on the Funding Date we issued to Deerfield Notes in the aggregate principal amount of $15 million. Under the Revenue Purchase Agreement, we agreed to pay Deerfield a portion of our revenues until the maturity date of the Notes, whether or not the Notes are outstanding through that date. On the Funding Date, we issued to Deerfield, Warrants at an exercise price of $3.50 per share and a second B Warrant (to purchase an additional 100,000 shares of common stock at an exercise price of $3.50 per share, which may become exercisable if certain conditions are met, as described in the Warrant Agreement. Pursuant to the Revenue Purchase Agreement, we are obligated to pay interest at 5.75% on the balance of the Notes that are outstanding, which is approximately $216,000 per quarter until the fourth quarter of 2014. In 2015, interest is approximately $162,000 per quarter and in 2016, interest is approximately $108,000 per quarter, with the final payment of $7.5 million on the Notes balance due in January 2017 (unless we elect to extend). We are also required to pay a minimum commitment of $125,000 per quarter under the Revenue Purchase Agreement; however this minimum is met at approximately $2.9 million of revenue per quarter. We expect to exceed the minimum revenue thresholds on a quarterly basis.

Net cash used for operating activities for the three month period ended March 31, 2013 was $1.2 million, compared to net cash used for operating activities of $3.9 million for the three month period ended March 31, 2012. The cash used for operating activities for the three months ended March 31, 2013 resulted primarily from a net loss of $0.7 million, a reduction in accrued expenses of approximately $1.4 million an increase in accounts receivable of $0.5 million offset by an accounts payable decrease of $0.2 million and other adjustments (primarily depreciation and amortization) to net income of approximately $0.8 million. We expect that cash used or provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, specifically the timing of when we recognize revenue, our accounts receivable collections and the timing of other payments.

The net cash used for investing activities for the three month period ended March 31, 2013 was $99,000 as compared to $34,000 for the three month period ended March 31, 2012. Cash used for investing activities consisted primarily of additions to property and equipment.

Net cash used for financing activities for the three month period ended March 31, 2013 was $7,000 as compared to cash provided by financing activities for the three month period ended March 31, 2012 of $14.3 million, which consisted of cash received in connection with the credit facility entered into with Deerfield in December 2011, described in Note 3 of the accompanying Condensed Consolidated Financial Statements.

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Contractual Obligations

The following table summarizes, for the periods presented, our future estimated cash payments under existing contractual obligations (in thousands).

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	5+ years
Lease Obligations	$ 2,082	$ 521	$ 937	$ 624	$
Settlement Obligations	3,000	775	800	1,050	375
Notes Payable	19,803	1,363	10,009	8,431	
Other Commitments	1,421	1,421			
Total Contractual Obligations	**$ 26,306**	**$ 4,080**	**$ 11,746**	**$ 10,105**	**$ 375**

Settlement obligations represent the minimum payments attributable to the obligations related primarily to Zeiss and Hologic.

Other commitments represent a firm purchase obligation to a key supplier for future product deliverables.

In addition to the contractual obligations related to the interest payments from the Notes, the Company is obligated under the revenue purchase agreement discussed in Note 3 of the accompanying financial statements, to pay Deerfield 4.25% of revenues up to $25 million, either 2.75% (for 2013 and 2014) or 2.25% (for 2015, 2016 and if applicable 2017) of annual revenues from $25 million to $50 million and 1.0% of annual revenues in excess of $50 million. Included in the above amounts are the minimum annual payments under the revenue purchase agreement of $125,000 per quarter payable in arrears. The Company has included only the minimum annual payments in Notes Payable.

Recent Accounting Pronouncements

See Note 9 to the Condensed Consolidated Financial Statements.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We believe we are not subject to material foreign currency exchange rate fluctuations, as substantially all of our sales and expenses are denominated in the U.S. dollar. We do not hold derivative securities and have not entered into contracts embedded with derivative instruments, such as foreign currency and interest rate swaps, options, forwards, futures, collars or warrants, either to hedge existing risks or for speculative purposes.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, as of March 31, 2013, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (Exchange Act)) were effective at the reasonable level of assurance.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We conduct periodic evaluations to enhance, where necessary our procedures and controls.

Our principal executive officer and principal financial officer conducted an evaluation of our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) to determine whether any changes in internal control over financial reporting occurred during the quarter ended March 31, 2013, that have materially affected or which are reasonably likely to materially affect internal control over financial reporting. Based on that evaluation, there has been no such change during such period.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to the detailed discussion regarding litigation set forth in Note 5 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

The Company is involved in various legal matters that are in the process of litigation or settled in the ordinary course of business. Although the final results of all such matters and claims cannot be predicted with certainty, we believe that the ultimate resolution of all such matters and claims will not have a material adverse effect on our financial condition. However, such matters could have a material adverse effect on our operating results and cash flows for a particular period.

Item 1A. Risk Factors

Our risk factors are described in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2012 There have been no material changes in the risks affecting iCAD since the filing of our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In January and February the Company granted an aggregate of 186,250 shares of restricted stock to employees. Of these shares 46,250 were granted on January 30, 2013 and 140,000 that were granted to executives on February 11, 2013 and previously disclosed via Form 4. The 186,250 shares of restricted stock were granted to employees as an incentive for performance and to encourage retention.

The securities described above were issued upon the exemption from the registration requirements of the Securities Act of 1933, as amended, upon reliance on Section 4(2) thereof and/or regulation D promulgated thereunder. No underwriters were employed in any of these transactions. Each of the certificates issued bears, or will bear, a legend stating that resale of the shares is restricted without compliance with the registration requirements of the Securities Act or the availability of an exemption from such registration requirements and stop transfer instructions have been, or will be, placed with the transfer agent with respect to the transfer of the shares issued.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012, (ii) Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012, (iii) Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012, and (iv) Notes to Consolidated Financial Statements**.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

iCAD, Inc.
(Registrant)

Date: May 9, 2013 By: /s/ Kenneth M. Ferry
Kenneth M. Ferry
President, Chief Executive Officer, Director

Date: May 9, 2013 By: /s/ Kevin C. Burns
Kevin C. Burns
Executive Vice President of Finance and Chief Financial Officer, Treasurer

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The following table presents the components of total noncontrolling interest as reported in the stockholders' equity statements and the consolidated balance sheets (in thousands):

	Capital	Accumulated Loss	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balances at December 31, 2016	$954,242	$(62,614)	$ (382)	$ 891,246
Contributions from noncontrolling interests	325,600	—	—	325,600
Distributions to noncontrolling interests	(9,164)	—	—	(9,164)
Other	(127)	—	—	(127)
Net loss	—	(32,018)	—	(32,018)
Other comprehensive income, net of tax	—	—	(107)	(107)
Balances at June 30, 2017	$1,270,551	$(94,632)	$ (489)	$ 1,175,430
Balances at December 31, 2017	$1,380,340	$(127,119)	$ 472	$ 1,253,693
Acquisitions	11,113	—	—	$ 11,113
Distributions to noncontrolling interests	(21,274)	—	—	(21,274)
Net loss [(1)]	—	(183,034)	—	(183,034)
Other comprehensive loss, net of tax	—	—	(1,752)	(1,752)
Balances at June 30, 2018	$1,370,179	$(310,153)	$ (1,280)	$ 1,058,746

(1) On December 22, 2017, the Tax Act was signed into law, which enacted major changes to the U.S. federal income tax laws, including a permanent reduction in the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Reduction in the corporate income tax rate resulted in one-time reduction in the noncontrolling interest attributable to partners in its tax equity partnerships. As part of the liquidation waterfall, the Company allocated significantly lower portions of the hypothetical liquidation proceeds to compensate certain noncontrolling

interest investors for tax gains on the hypothetical sale calculated at the lowered rate of 21% as compared to the rate of 35% that was previously utilized. For the six months ended June 30, 2018, included in net loss attributable to noncontrolling interest is a one-time adjustment of $150 million as a result of the decrease in the federal corporate income tax rate.

16. Earnings Per Share

Basic earnings per share is computed by dividing net earnings attributable to common stockholders by the weighted average number of common shares outstanding during the reportable period. Diluted earnings per share is computed by adjusting basic earnings per share for the effect of all potential common shares unless they are anti-dilutive. For purpose of this calculation, potentially dilutive securities are determined by applying the treasury stock method to the assumed exercise of in-the-money stock options and the assumed vesting of outstanding restricted stock awards (RSAs) and release of deferred restricted stock units (RSUs). Potentially dilutive securities related to convertible senior notes are determined using the if-converted method.

The Company's vested deferred RSUs have non-forfeitable rights to dividends prior to release and are considered participating securities. Accordingly, they are included in the computation of basic and diluted earnings per share, pursuant to the two-class method. Under the two-class method, distributed and undistributed earnings allocated to participating securities are excluded from net earnings attributable to common stockholders for purposes of calculating basic and diluted earnings per share. However, net losses are not allocated to participating securities since they are not contractually obligated to share in the losses of the Company.

Potentially dilutive securities excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive were 8.6 million shares and 0.4 million shares, respectively, for the three and six months ended June 30, 2018, and 8.1 million shares and 8.5 million shares, respectively, for the three and six months ended June 30, 2017.

The computations for Class A basic and diluted earnings per share are as follows (in thousands except share data):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Numerator for basic and diluted earnings per share:				
Net earnings attributable to controlling interest	$32,718	$ 14,220	$168,640	$ 19,873
Less: earnings allocated to participating securities	(40)	(26)	(157)	(48)
Numerator for basic EPS - net income attributable to common stockholders	$32,678	$ 14,194	$168,483	$ 19,825
Add back allocation of earnings to participating securities	40	26	157	48
Add back convertible senior notes interest	—	—	7,480	—
Reallocation of earnings to participating securities considering potentially dilutive securities	(40)	(26)	(148)	(48)
Numerator for diluted earnings per share - net income attributable to common stockholders	$32,678	$ 14,194	$175,972	$ 19,825
Denominator for earnings per share:				
Weighted average number of shares:				
Class A common stock - basic	97,459,472	87,065,591	97,444,016	87,064,110
Add dilutive effect of:				
Stock options	—	7,488	—	—
Restricted stock awards	36,348	144,302	47,886	185,366
Restricted stock units	397	—	45	7,654
Convertible senior notes	—	—	8,170,740	—
Class A common stock - diluted	97,496,217	87,217,381	105,662,687	87,257,130
Earnings per share:				
Class A common stock:				
Basic	$0.34	$ 0.16	$1.73	$ 0.23
Diluted	$0.34	$ 0.16	$1.67	$ 0.23
Dividends declared per Class A common share	$0.42	$ 0.42	$0.84	$ 0.83

17. Commitments and Contingencies

Commitments

Acquisition commitments

On June 16, 2017, the Company entered into a purchase and sale agreement with Pattern Development 1.0 to purchase (i) a 51% limited partner interest in a newly-formed limited partnership (which will hold 100% of the economic interests in Mont Sainte-Marguerite Wind Farm LP (MSM), (ii) a 70% interest in Pattern MSM GP Holdings Inc., and (iii) a 70% interest in Pattern Development MSM Management ULC, in exchange for aggregate consideration of CAD

$53.0 million (subject to certain adjustments). MSM operates the approximately 143 MW wind farm located near Québec City, Canada.
Completed Acquisition Commitments
As part of the Japan Acquisition completed in the first quarter of 2018, the Company became party to various agreements and future commitments. The following table summarizes estimates of future commitments related to the various agreements entered into as part of the Japan Acquisition as of June 30, 2018 (in thousands):

	Remainder of 2018	2019	2020	2021	2022	Thereafter	Total
Operating leases	$ 1,463	$2,926	$2,347	$2,154	$2,154	$ 30,068	$41,112
Service and maintenance agreements	1,511	3,180	5,798	6,284	6,263	44,853	67,889
Other	51,740	150,099	34,067	—	—	—	235,906
Total commitments (1)	$ 54,714	$156,205	$42,212	$8,438	$8,417	$ 74,921	$344,907

(1) The accounting for the Japan Acquisition is preliminary. Refer to Note 5, Acquisitions for details.
Operating Leases
The Company has entered into various long-term operating lease agreements related to lands for its wind and solar farms. For the six months ended June 30, 2018 and 2017, the Company recorded rent expenses of $8.9 million and $7.2 million, respectively, in project expense in its consolidated statements of operations.
In March 2018, the Company entered into an operating lease for its new corporate headquarters in San Francisco, California. Total operating lease payments are approximately $35 million over the term of the lease which expires in December 2028.
Other Commitments
Other commitments consist of construction commitments related to the development of Tsugaru which is expected to commence commercial operations in early to mid-2020.
Letters of Credit
Power Sale Agreements
The Company owns and operates wind power projects and has entered into various long-term power sale agreements that terminate from 2019 to 2042. The terms of these agreements 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 agreement. Under the terms of these agreements, as of June 30, 2018, irrevocable letters of credits totaling $156.2 million were available to be issued to guarantee the Company's performance for the duration of the agreements.
Project Finance and Lease Agreements
The Company has various project finance and lease agreements which obligate the Company to provide certain reserves to enhance its credit worthiness and facilitate the availability of credit. As of June 30, 2018, irrevocable letters of credit totaling $187.0 million, which includes letters of credit available under the Revolving Credit Facility, were available to be issued to ensure performance under the various project finance and lease agreements.

Contingencies

Turbine Operating Warranties and Service Guarantees

The Company has various turbine availability warranties from its turbine manufacturers and service guarantees from its service and maintenance providers. Pursuant to these guarantees, if a turbine operates at less than minimum availability during the guarantee measurement period, the service provider is obligated to pay, as liquidated damages at the end of the warranty measurement period, an amount for each percent that the turbine operates below the minimum availability threshold. In addition, pursuant to certain of these guarantees, if a turbine operates at more than a specified availability during the guarantee measurement period, the Company has an obligation to pay a bonus to the service provider at the end of the warranty measurement period. As of June 30, 2018, the Company recorded liabilities of $0.3 million associated with bonuses payable to the turbine manufacturers and service providers.

Contingencies in connection with the Broadview Project

The Company recorded a $7.2 million contingent obligation upon the acquisition of the Broadview Project in 2017, which is subject to certain conditions, including the actual energy production of Broadview in a production year and the continued operation of Broadview. Also as part of the acquisition, the Company recorded an additional $29.0 million contingent obligation, payable to the same counterparty, which is subject to certain conditions, including the commercial operation of the Grady Project, expected in April 2019. This contingent payment is calculated as a percentage of additional transmission revenue earned by Western Interconnect upon the Grady Project's commercial operation. As of June 30, 2018, the balance of the contingencies totaled $30.3 million of which $0.5 million is current and $29.8 million is long-term.

Contingencies in connection with the Sale of Panhandle 2 interests

In connection with the sale of Panhandle 2, the Company agreed to indemnify Public Sector Pension Investment Board (PSP Investments) up to $5.0 million to cover PSP Investments' pro rata share of the economic impacts resulting from planned transmission outages in the Texas market until December 31, 2019. As of June 30, 2018, the Company has recorded a contingent liability of $3.7 million associated with the indemnity.

Contingencies in connection with the Japan Acquisition

The Company assumed a $16.2 million contingent liability as part of the acquisition. The payment of this liability is subject to the completion of a construction milestone at Tsugaru and is calculated based on the nameplate capacity of Tsugaru.

Legal Matters

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.

Indemnity

The Company provides a variety of indemnities in the ordinary course of business to contractual counterparties and to its lenders and other financial partners. The Company is party to certain indemnities for the benefit of project finance lenders and tax equity partners of certain projects. These consist principally of indemnities that protect the project finance lenders from, among other things, the potential effect of any recapture by the U.S. Department of the Treasury of any amount of the cash grants previously received by the projects and eligibility of production tax credits and certain legal matters, limited to the amount of certain related costs and expenses.

18. Related Party Transactions

Management Fees

The Company provides management services and receives a fee for such services under agreements with its joint venture investees, South Kent, Grand, K2, and Armow, in addition to various Pattern Development 1.0 subsidiaries and equity method investments. In connection with the Japan Acquisition, the Company receives management services related to the acquired projects and incurs a fee for such services under agreements with a subsidiary of Pattern Development 2.0.

Management Services Agreement and Shared Management

The Company has entered into an Amended and Restated Multilateral Management Services Agreement (MSA) with the Pattern Development Companies, which provides for the Company and the Pattern Development Companies to benefit, primarily on a cost-reimbursement basis, from the parties' respective management and other professional, technical and administrative personnel, all of whom report to the Company's executive officers. Costs and expenses incurred at the Pattern Development Companies or their respective subsidiaries on the Company's behalf will be allocated to the Company. Conversely, costs and expenses incurred at the Company or its respective subsidiaries on the behalf of a Pattern Development Company will be allocated to the respective Pattern Development Company. Pursuant to the MSA, certain of the Company's executive officers, including its Chief Executive Officer (shared PEG executives), also serve as executive officers of the Pattern Development Companies and devote their time to both the Company and the Pattern Development Companies as is prudent in carrying out their executive responsibilities and fiduciary duties. The shared PEG executives have responsibilities for both the Company and the respective Pattern Development Companies and, as a result, these individuals do not devote all of their time to the Company's business. Under the terms of the MSA, each of the respective Pattern Development Companies is required to reimburse the Company for an allocation of the compensation paid to such shared PEG executives reflecting the percentage of time spent providing services to such Pattern Development Company. The MSA costs incurred by the Company are included in related party general and administrative on the consolidated statements of operations.

Related Party Transactions

The table below presents amounts due from and to related parties as included in the consolidated balance sheets for the following periods (in millions):

	June 30, 2018	December 31, 2017
Other current assets	$ 8.0	$ 13.2
Total due from related parties	$ 8.0	$ 13.2
Other current liabilities	23.5	10.8
Contingent liabilities	100.7	—
Total due to related parties	$ 124.2	$ 10.8

The table below presents revenue, reimbursement and (expenses) recognized for management fees and the MSA, as included in the statements of operations for the following periods (in thousands):

		Three months ended June 30,		Six months ended June 30,	
Related Party Agreement	Financial Statement Line Item	2018	2017	2018	2017
Management fees	Other revenue	$2,724	$1,780	$4,780	$4,004
MSA reimbursement	General and administrative	$2,578	$2,098	$4,809	$3,889
MSA costs	Related party general and administrative expense	$(3,663)	$(3,576)	$(7,731)	$(7,002)

Purchase and Sales Agreements

During the six months ended June 30, 2018, the Company consummated the following acquisitions with Pattern Development 1.0 which are further detailed in Note 5, Acquisitions (in millions):

Acquisitions from Pattern Development 1.0	Date of Acquisition	Cash Consideration	Debt Assumed	Contingent Consideration
Japan projects	March 7, 2018	$ 176.6	$ 181.3	$ 105.9

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Investment in Pattern Development 2.0

During 2018, the Company funded $57.1 million into Pattern Development 2.0 of which approximately $27 million was used by Pattern Development 2.0 to fund the purchase of GPI. As of June 30, 2018, the Company has funded $124.4 million in aggregate and holds an approximately 24% ownership interest in Pattern Development 2.0.

19. Subsequent Events

On August 2, 2018, the Company declared a dividend for the third quarter, payable on October 31, 2018, to holders of record on September 28, 2018, in the amount of $0.4220 per Class A share, or $1.688 on an annualized basis. This is unchanged from the second quarter of 2018.

On August 9, 2018, the Company intends to fund approximately $29.0 million into Pattern Development 2.0.

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, 2017 and our unaudited consolidated financial statements for the three and six months ended June 30, 2018 and other disclosures (including the disclosures under "Part II. Item 1A. Risk Factors") included in this Quarterly Report on Form 10-Q. Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented in U.S. dollars. Unless the context provides otherwise, references herein to "we," "our," "us," "our company" and "Pattern Energy" ref to Pattern Energy Group Inc., a Delaware corporation, together with its consolidated subsidiaries.

Overview

We are an independent power company focused on owning and operating power projects with stable long-term cash flows in attractive markets with potential for continued growth of our business. We hold interests in 24 wind and solar power projects, including the Mont Sainte-Marguerite (MSM) wind power project we have committed to acquire, and excluding the El Arrayán wind power project we have committed to sell to a third party, with a total owned interest of 2,861 MW in the United States, Canada and Japan that use proven and best-in-class technology. Each of our projects has contracted to sell all or a majority of its output pursuant to a long-term, fixed-price power sale agreements (PSAs), some of which are subject to price escalation. Ninety-three percent of the electricity to be generated by our projects will be sold under our PSAs which have a weighted average remaining contract life of approximately 13.9 years as of June 30, 2018.

We intend to maximize long-term value for our stockholders in an environmentally responsible manner and with respect for the communities in which we operate. Our business is built around three core values of creative energy and spirit, pride of ownership and follow-through, and a team first attitude, which guide us in creating a safe, high-integrity work environment, applying rigorous analysis to all aspects of our business, and proactively working with our stakeholders to address environmental and community concerns. Our financial objectives, which we believe will maximize long-term value for our stockholders, are to produce stable and sustainable cash available for distribution, selectively grow our project portfolio and our dividend per Class A share and maintain a strong balance sheet and flexible capital structure.

Our growth strategy is focused on the acquisition of operational and construction-ready power projects from Pattern Development Companies (Pattern Energy Group LP (Pattern Development 1.0), Pattern Energy Group 2 LP (Pattern Development 2.0) and their respective subsidiaries) and other third parties that, together with measured investments into the development business, we believe will contribute to the growth of our business and enable us to increase our dividend per share of Class A common stock over time. The Pattern Development Companies are leading developers of renewable energy and transmission projects. Our continuing relationship with the Pattern Development Companies, including an approximate 24% interest in Pattern Development 2.0, provides us with access to a pipeline of acquisition opportunities. Currently, the Pattern Development Companies have a more than 10 GW pipeline of development projects, all of which are subject to our right of first offer. We target achieving a total owned or managed capacity of 5,000 MW by year end 2020 through a combination of acquisitions from the Pattern Development Companies and other third parties capitalizing on the large and fragmented global renewable energy market. Our business is primarily focused in the U.S., Canada, and Japan.

The discussion and analysis below has been organized as follows:

- Recent Developments
- Key Metrics
- Results of Operations
- Liquidity and Capital Resources
  - Sources of Liquidity
  - Uses of Liquidity
- Critical Accounting Policies and Estimates

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Recent Developments

Pattern Development 2.0 Investment

On August 9, 2018, we intend to fund approximately $29.0 million into Pattern Development 2.0. Following such funding and a redemption at Pattern Development 2.0 expected to occur during the third quarter of 2018, our ownership level in Pattern Development 2.0 is expected to be approximately 29%.

Chile Sale

On May 21, 2018, we, through our indirect wholly-owned subsidiaries, entered into a stock purchase agreement (El Arrayán SPA) with a third party (buyer) pursuant to which we agreed to sell, and the buyer agreed to purchase, certain subsidiaries which hold approximately a 71% interest in El Arrayán Wind and assets and rights relating to ownership and operation of an extension of the trunk transmission system in Chile. El Arrayán Wind is a wind electric generation facility located approximately 400 kilometers north of Santiago on the coast of Chile in which we have an owned interest of approximately 81 MW. In connection with the transaction, we will receive cash consideration of $68.5 million, subject to adjustments. The obligations to consummate the transactions contemplated by the El Arrayán SPA are subject to the satisfaction or waiver of various customary conditions. As a result of the transactions contemplated by the El Arrayán SPA, we recorded an impairment charge of $4.2 million in the second quarter of 2018. While we do not expect such impairment charge to change materially, such impairment charge is subject to adjustment until the transaction is consummated.

Japan Acquisition

On March 7, 2018, pursuant to a series of purchase and sale agreements with Pattern Development 1.0 and Green Power Investments (GPI), we acquired Green Power Tsugaru Holdings G.K. which owns Tsugaru, a project company currently constructing a 122 MW name plate capacity wind facility in Aomori Prefecture, Japan expected to commence commercial operations in early to mid-2020; Ohorayama, a wind project located in Kochi Prefecture, Japan, with a name plate capacity of 33 MW that commenced commercial operations in March 2018; Kanagi, a solar project located in Shimane Prefecture, Japan, with a name plate capacity of 10 MW that commenced commercial operations in 2016; Otsuki, a wind project located in Kochi Prefecture, Japan, with a name plate capacity of 12 MW that began commercial operations in 2006; and Futtsu, a solar project located in Chiba Prefecture, Japan, with a name plate capacity of 29 MW that commenced commercial operations in 2016, collectively referred to as the Japan Acquisition.

Total consideration for the Japan Acquisition was $282.5 million, which consisted of approximately $176.6 million of cash and post-closing contingent payments with fair value of approximately $105.9 million. As part of the acquisition, we also assumed $181.3 million of debt. Subsequent to the acquisition, we extinguished debt of $5.7 million at Otsuki.

Noncontrolling Interests - Impact of the 2017 Tax Act

On December 22, 2017, the 2017 Tax Act (Tax Act) was signed into law, which enacted major changes to the U.S. federal income tax laws, including a permanent reduction in the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Reduction in the corporate income tax rate resulted in one-time reduction in the noncontrolling interest attributable to partners in our tax equity partnerships. As part of the liquidation waterfall, we allocated significantly lower portions of the hypothetical liquidation proceeds to compensate certain noncontrolling interest investors for tax gains on the hypothetical sale calculated at the lowered rate of 21% as compared to the rate of 35% that was previously utilized. For the six months ended June 30, 2018, included in net loss attributable to noncontrolling interest is a one-time adjustment of $150 million as a result of the decrease in the federal corporate income tax rate. We do not expect the Tax Act to significantly change the flip point or the timing of expected cash distributions.

Identified ROFO Projects

We waived our ROFO rights with respect to Conejo Solar, a solar project in Chile, in connection with the sale of such project pursuant to a joint marketing process that was undertaken with our sale of El Arrayán Wind, a project also located in Chile. We declined to exercise our ROFO rights with respect to El Cabo, and Pattern Development 1.0 entered agreements to sell their interests in such project back to the party from whom it had acquired such interests. Below is a summary of our Identified ROFO Projects that we have the right to purchase from the Pattern Development Companies in connection with our respective purchase rights.

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Identified ROFO Projects	Status	Location	Construction Start [1]	Commercial Operations [2]	Contract Type	Capacity (MW) Rated [3]	Pattern Development-Owned [4]
Pattern Development 1.0 Projects							
Belle River	Operational	Ontario	2016	2017	PPA	100	43
North Kent	Operational	Ontario	2017	2018	PPA	100	35
Henvey Inlet	In construction	Ontario	2017	2019	PPA	300	150
Pattern Development 2.0 Projects							
Stillwater Big Sky	In construction	Montana	2017	2018	PPA	79	67
Crazy Mountain	Late stage development	Montana	2019	2019	PPA	80	68
Grady	In construction	New Mexico	2018	2019	PPA	220	188
Sumita	Late stage development	Japan	2019	2021	PPA	100	55
Ishikari	Late stage development	Japan	2019	2022	PPA	100	100
						1,079	706

(1) Represents year of actual or anticipated commencement of construction.

(2) Represents year of actual or anticipated commencement of commercial operations.

(3) Rated capacity represents the maximum electricity generating capacity of a project in MW. As a result of wind and other conditions, a project or a turbine will not operate at its rated capacity at all times and the amount of electricity generated will be less than its rated capacity. The amount of electricity generated may vary based on a variety of factors.

(4) Pattern Development-Owned capacity represents the maximum, or rated, electricity generating capacity of the project in MW multiplied by Pattern Development 1.0's or Pattern Development 2.0's percentage ownership interest in the distributable cash flow of the project.

Key Metrics

We regularly review a number of financial measurements and operating metrics to evaluate our performance, measure our growth and make strategic decisions. In addition to traditional U.S. GAAP performance and liquidity measures, such as total revenue, cost of revenue, net loss and net cash provided by operating activities, we also consider cash available for distribution as a supplemental liquidity measure and Adjusted EBITDA, MWh sold and average realized electricity price in evaluating our operating performance. We disclose cash available for distribution, which is a non-U.S. GAAP measure, because management recognizes that it will be used as a supplemental measure by investors and analysts to evaluate our liquidity. We disclose Adjusted EBITDA, which is a non-U.S. GAAP measure, because management believes this metric assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that our management believes are not indicative of our core operating performance. Each of these key metrics is discussed below.

Limitations to Key Metrics

We disclose cash available for distribution, which is a non-U.S. GAAP measure, because management recognizes that it will be used as a supplemental measure by investors and analysts to evaluate our liquidity. However, cash available for distribution has limitations as an analytical tool because it:

- excludes depreciation, amortization and accretion;
- does not capture the level of capital expenditures necessary to maintain the operating performance of our projects;
- is not reduced for principal payments on our project indebtedness except to the extent they are paid from operating cash flows during a period; and
- excludes the effect of certain other cash flow items, all of which could have a material effect on our financial condition and results from operations.

Because of these limitations, cash available for distribution should not be considered an alternative to net cash provided by operating activities or any other liquidity measure determined in accordance with U.S. GAAP, nor is it indicative of funds available to fund our cash needs. In addition, our calculation of cash available for distribution is not necessarily comparable to cash available for distribution as calculated by other companies.

We disclose Adjusted EBITDA, which is a non-U.S. GAAP measure, because management believes this metric assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that our management believes are not indicative of our core operating performance. We use Adjusted EBITDA to evaluate our operating

performance. You should not consider Adjusted EBITDA as an alternative to net income (loss), determined in accordance with U.S. GAAP.

Adjusted EBITDA has limitations as an analytical tool. Some of these limitations are:

- Adjusted EBITDA
- does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- does not reflect changes in, or cash requirements for, our working capital needs;
- does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt, or our proportional interest in the interest expense of our unconsolidated investments or the cash requirements necessary to service interest or principal payments on the debt borne by our unconsolidated investments;
- does not reflect our income taxes or the cash requirement to pay our taxes; or our proportional interest in income taxes of our unconsolidated investments or the cash requirements necessary to pay the taxes of our unconsolidated investments;
- does not reflect depreciation, amortization and accretion which are non-cash charges; or our proportional interest in depreciation, amortization and accretion of our unconsolidated investments. The assets being depreciated, amortized and accreted will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- does not reflect the effect of certain mark-to-market adjustments and non-recurring items or our proportional interest in the mark-to-market adjustments at our unconsolidated investments.
- We do not have control, nor have any legal claim to the portion of the unconsolidated investees' revenues and expenses allocable to our joint venture partners. As we do not control, but do exercise significant influence, we account for the unconsolidated investments in accordance with the equity method of accounting. Net earnings from these investments are reflected within our consolidated statements of operations in "Earnings in unconsolidated investments, net." Adjustments related to our proportionate share from unconsolidated investments include only our proportionate amounts of interest expense, income taxes, depreciation, amortization and accretion, and mark-to-market adjustments included in "Earnings in unconsolidated investments, net;" and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with U.S. GAAP.

Cash Available for Distribution

We define cash available for distribution as net cash provided by operating activities as adjusted for certain other cash flow items that we associate with our operations. It is a non-U.S. GAAP measure of our ability to generate cash to pay dividends.

Cash available for distribution represents cash provided by operating activities as adjusted to:

(i) add or subtract changes in operating assets and liabilities;

(ii) subtract net deposits into restricted cash accounts, which are required pursuant to the cash reserve requirements of financing agreements, to the extent they are paid from operating cash flows during a period;

(iii) subtract cash distributions paid to noncontrolling interests;

(iv) subtract scheduled project-level debt repayments in accordance with the related loan amortization schedule, to the extent they are paid from operating cash flows during a period;

(v) subtract non-expansionary capital expenditures, to the extent they are paid from operating cash flows during a period;

(vi) add cash distributions received from unconsolidated investments (as reported in net cash provided by investing activities), to the extent such distributions were derived from operating cash flows; and

(vii) add or subtract other items as necessary to present the cash flows we deem representative of our core business operations.

The most directly comparable U.S. GAAP measure to cash available for distribution is net cash provided by operating activities. The following table is a reconciliation of our net cash provided by operating activities to cash available for distribution for the periods presented (unaudited and in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net cash provided by operating activities[1]	$95,720	$113,431	$123,544	$157,183
Changes in operating assets and liabilities	(10,079)	(61,379)	18,497	(47,956)
Network upgrade reimbursement	294	8,273	576	8,590
Release of restricted cash	—	—	2,488	—
Operations and maintenance capital expenditures	(10)	(117)	(271)	(263)
Distributions from unconsolidated investments[2]	(1,948)	4,185	4,333	8,390
Other	2,147	4,808	3,007	1,376
Less:				
Distributions to noncontrolling interests	(12,088)	(6,517)	(21,275)	(9,164)
Principal payments paid from operating cash flows	(15,374)	(13,445)	(29,177)	(23,771)
Cash available for distribution	$58,662	$49,239	$101,722	$94,385

[1] Included in net cash provided by operating activities for the three and six months ended June 30, 2018 and 2017 are the portions of distributions from unconsolidated investments paid from cumulative earnings representing the return on investment.

[2] Distributions from unconsolidated investments for the three months ended June 30, 2018 includes an adjustment for a March 2018 distribution received in April 2018 previously included in the first quarter 2018 cash available for distribution.

Cash available for distribution was $58.7 million for the three months ended June 30, 2018 as compared to $49.2 million for the same period in the prior year. This $9.4 million increase in cash available for distribution was primarily due to:

- $32.9 million increase in revenues (excluding unrealized loss on energy derivative and amortization of PPAs) primarily due to acquisitions in 2017 and early 2018 and a $4.4 million increase in total distributions from unconsolidated investments.

These increases were partially offset by:

- $8.0 million decrease in network upgrade reimbursement;
- $5.6 million increase in distributions to noncontrolling interests;
- $3.6 million increase in interest expense (excluding amortization of financing costs and debt discount/premium);
- $2.9 million increase in transmission costs;
- $2.7 million decrease in other; and
- $1.9 million increase in principal payments of project-level debt.

Cash available for distribution was $101.7 million for the six months ended June 30, 2018 as compared to $94.4 million for the same period in the prior year. This $7.3 million increase in cash available for distribution was primarily due to:

- $53.1 million increase in revenue (excluding unrealized loss on energy derivative and amortization of PPAs);
- $2.5 million release of restricted cash; and
- $1.6 million increase from other primarily related to transaction costs associated with 2018 acquisitions and assets held for sale.

These increases were partially offset by:

- $12.1 million increase in distributions to noncontrolling interests;
- $10.0 million increase in transmission costs primarily due to acquisitions in 2017;
- $8.0 million decrease in network upgrade reimbursement;
- $7.5 million increase in interest expense (excluding amortization of financing costs and debt discount/premium);
- $5.7 million increase in project expenses related to projects acquired in 2017 and 2018;

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- $5.4 million increase in principal payments of project-level debt; and
- $2.7 million decrease in total distributions from unconsolidated investments.

Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) before net interest expense, income taxes, and depreciation, amortization and accretion, including our proportionate share of net interest expense, income taxes, and depreciation, amortization and accretion of unconsolidated investments. Adjusted EBITDA also excludes the effect of certain mark-to-market adjustments and infrequent items not related to normal or ongoing operations, such as early payment of debt, realized derivative gain or loss from refinancing transactions, gain or loss related to acquisitions or divestitures, and adjustments from unconsolidated investments. In calculating Adjusted EBITDA, we exclude mark-to-market adjustments to the value of our derivatives because we believe that it is useful for investors to understand, as a supplement to net income (loss) and other traditional measures of operating results, the results of our operations without regard to periodic, and sometimes material, fluctuations in the market value of such assets or liabilities.

Adjustments from unconsolidated investments represent distributions received in excess of the carrying amount of our investment and suspended equity earnings, during periods of suspension of recognition of equity method earnings. We may suspend the recognition of equity method earnings when we receive distributions in excess of the carrying value of our investment. As we are not liable for the obligations of the investee nor otherwise committed to provide financial support, we record gains resulting from such excess distributions in the period the distributions occur. Additionally, when our carrying value in an unconsolidated investment is zero and we are not liable for the obligations of the investee nor otherwise committed to provide financial support, we will not recognize equity in earnings (losses) in other comprehensive income of unconsolidated investments.

The most directly comparable U.S. GAAP measure to Adjusted EBITDA is net income (loss). The following table reconciles net income (loss) to Adjusted EBITDA for the periods presented (unaudited and in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net loss	$(1,774)	$(14,684)	$(14,394)	$(12,145)
Plus:				
Interest expense, net of interest income	27,284	24,238	52,394	46,299
Tax provision	4,410	4,541	11,194	9,316
Depreciation, amortization and accretion	62,766	52,752	125,416	99,979
EBITDA	92,686	66,847	174,610	143,449
Unrealized loss on energy derivative [1]	3,626	4,663	14,673	7,021
(Gain) loss on derivatives	(8,801)	4,751	(14,461)	5,399
Impairment loss	4,238	—	4,238	—
Other	—	807	—	1,119
Plus, proportionate share from unconsolidated investments:				
Interest expense, net of interest income	9,506	9,498	18,974	18,838
Tax benefit	(207)	—	(207)	—
Depreciation, amortization and accretion	8,741	8,575	17,509	17,029
Gain on derivatives	(1,379)	(3,272)	(2,714)	(2,788)
Adjusted EBITDA	$108,410	$91,869	$212,622	$190,067

[1] Amount is included in electricity sales on the consolidated statements of operations.

Adjusted EBITDA for the three months ended June 30, 2018 was $108.4 million compared to $91.9 million for the same period in the prior year, an increase of $16.5 million, or approximately 18.0%. The increase in Adjusted EBITDA was primarily due to the following:

- $32.9 million increase in revenue (excluding unrealized loss on energy derivative and amortization of PPAs) primarily attributable to volume increases as a result of our 2017 and 2018 acquisitions and favorable wind compared to 2017, partially offset by curtailment at Santa Isabel; and

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- $2.7 million decrease in general and administrative expenses primarily due to lower audit and consulting fees in 2018 compared to 2017.

The increase was partially offset by:

- $17.2 million decrease in earnings from unconsolidated investments;
- $2.9 million increase in transmission costs; and
- $1.2 million increase in net loss on transactions primarily related to the Chile assets held for sale.

Adjusted EBITDA for the six months ended June 30, 2018 was $212.6 million compared to $190.1 million for the same period in the prior year, an increase of $22.6 million, or approximately 11.9%. The increase in Adjusted EBITDA was primarily due to a $53.1 million increase in revenue (excluding unrealized loss on energy derivative and amortization of PPAs) primarily attributable to volume increases as a result of our 2017 and 2018 acquisitions, favorable wind compared to 2017, and an insurance settlement for Santa Isabel partially offset by curtailment at Santa Isabel.

The increase was partially offset by:

- $15.2 million increase in loss from unconsolidated investments;
- $10.0 million increase in transmission costs;
- $5.7 million increase in project expenses; and
- $2.0 million increase in net loss on transactions primarily related to 2018 acquisitions and assets held for sale.

MWh Sold and Average Realized Electricity Price

The number of consolidated MWh, unconsolidated investments proportional MWh and proportional MWh sold, as well as consolidated average realized price per MWh and the proportional average realized price per MWh sold, are the operating metrics that help explain trends in our revenue, earnings from our unconsolidated investments and net income (loss) attributable to us.

- Consolidated MWh sold for any period presented, represents 100% of MWh sold by wholly-owned and partially-owned subsidiaries in which we have a controlling interest and are consolidated in our consolidated financial statements;
- Noncontrolling interest MWh represents that portion of partially-owned subsidiaries not attributable to us;
- Controlling interest in consolidated MWh is the difference between the consolidated MWh sold and the noncontrolling interest MWh;
- Unconsolidated investments proportional MWh is our proportion in MWh sold from our equity method investments;
- Proportional MWh sold for any period presented, represents the sum of the controlling interest and our percentage interest in our unconsolidated investments; and
- Average realized electricity price for each of consolidated MWh sold, unconsolidated investments proportional MWh sold and proportional MWh sold represents (i) total revenue from electricity sales for each of the respective MWh sold, discussed above, excluding unrealized gains and losses on our energy derivative and the amortization of finite-lived intangible assets and liabilities, divided by (ii) the respective MWh sold.

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The following table presents selected operating performance metrics for the periods presented (unaudited):

	Three months ended June 30,				Six months ended June 30,			
MWh sold	2018	2017	Change	% Change	2018	2017	Change	% Change
Consolidated MWh sold	2,468,927	2,074,327	394,600	19.0 %	4,608,411	3,988,585	619,826	15.5 %
Less: noncontrolling MWh	(465,217)	(281,134)	(184,083)	65.5 %	(872,354)	(540,728)	(331,626)	61.3 %
Controlling interest in consolidated MWh	2,003,710	1,793,193	210,517	11.7 %	3,736,057	3,447,857	288,200	8.4 %
Unconsolidated investments proportional MWh	259,101	318,434	(59,333)	(18.6)%	662,469	687,653	(25,184)	(3.7)%
Proportional MWh sold	2,262,811	2,111,627	151,184	7.2 %	4,398,526	4,135,510	263,016	6.4 %
Average realized electricity price per MWh								
Consolidated average realized electricity price per MWh	$57	$ 53	$ 4	7.5 %	$55	$ 53	$ 2	3.8 %
Unconsolidated investments proportional average realized electricity price per MWh	$118	$ 114	$ 4	3.5 %	$119	$ 117	$ 2	1.7 %
Proportional average realized electricity price per MWh	$68	$ 64	$ 4	6.3 %	$68	$ 66	$ 2	3.0 %

Our consolidated MWh sold for the three months ended June 30, 2018 was 2,468,927 MWh, as compared to 2,074,327 MWh for the three months ended June 30, 2017, an increase of 394,600 MWh, or 19.0%. Our consolidated MWh sold for the six months ended June 30, 2018 was 4,608,411 MWh, as compared to 3,988,585 MWh for the six months ended June 30, 2018, an increase of 619,826 MWh, or 15.5%. The increase in consolidated MWh sold was primarily due to volume increases as a result of acquisitions in 2017 and 2018 and favorable wind compared to 2017 partially offset by curtailment at Santa Isabel.

Our proportional MWh sold for the three months ended June 30, 2018 was 2,262,811 MWh, as compared to 2,111,627 MWh for the three months ended June 30, 2017, an increase of 151,184 MWh, or 7.2%. The increase in proportional MWh sold was primarily attributable to:

- 210,517 MWh increase in controlling interest in consolidated MWh primarily due to our acquisitions in 2017 and 2018 and favorable wind compared to 2017, partially offset by curtailment at Santa Isabel; and
- 59,333 MWh decrease from unconsolidated investments primarily due to unfavorable winds and curtailment.

Our proportional MWh sold for the six months ended June 30, 2018 was 4,398,526 MWh, as compared to 4,135,510 MWh for the six months ended June 30, 2017, an increase of 263,016 MWh, or 6.4%. The increase in proportional MWh sold was primarily attributable to:

- 288,200 MWh increase in controlling interest in consolidated MWh primarily due to our acquisitions in 2017 and 2018 and favorable wind compared to 2017, partially offset by curtailment at Santa Isabel and curtailment and congestion in our Texas market; offset by
- 25,184 MWh decrease from unconsolidated investments primarily due to curtailment partially offset by favorable winds compared to 2017.

Our consolidated average realized electricity price was $57 per MWh for the three months ended June 30, 2018, increased from $53 per MWh for the three months ended June 30, 2017 due to higher PPA prices associated with our Meikle and Japan acquisitions.

Our consolidated average realized electricity price was $55 per MWh for the six months ended June 30, 2018, increased from $53 per MWh for the six months ended June 30, 2017 due to acquisitions in 2017 and early 2018.
Our proportional average realized electricity price was $68 per MWh for the three months ended June 30, 2018, increased from $64 per MWh for the three months ended June 30, 2017 due to acquisitions in 2017 and early 2018.
Our proportional average realized electricity price was $68 per MWh for the six months ended June 30, 2018 was comparable to $66 per MWh for the six months ended June 30, 2017.

Results of Operations

The following table and discussion provide selected financial information for the periods presented and is unaudited (in thousands, except percentages):

	Three months ended June 30,				Six months ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Revenue	$139,940	$107,760	$32,180	29.9 %	$251,599	$208,593	$43,006	20.6 %
Total cost of revenue	96,287	86,645	9,642	11.1 %	193,491	159,555	33,936	21.3 %
Total operating expenses	16,990	15,353	1,637	10.7 %	31,764	29,903	1,861	6.2 %
Total other expense	24,027	15,905	8,122	51.1 %	29,544	21,964	7,580	34.5 %
Net income (loss) before income tax	2,636	(10,143)	12,779	(126.0)%	(3,200)	(2,829)	(371)	13.1 %
Tax provision	4,410	4,541	(131)	(2.9)%	11,194	9,316	1,878	20.2 %
Net loss	(1,774)	(14,684)	12,910	(87.9)%	(14,394)	(12,145)	(2,249)	18.5 %
Net loss attributable to noncontrolling interest	(34,492)	(28,904)	(5,588)	19.3 %	(183,034)	(32,018)	(151,016)	471.7 %
Net income attributable to Pattern Energy	$32,718	$14,220	$18,498	130.1 %	$168,640	$19,873	$148,767	748.6 %

Total revenue

Total revenue for the three months ended June 30, 2018 was $139.9 million compared to $107.8 million for the three months ended June 30, 2017, an increase of $32.2 million, or approximately 29.9%. The increase was primarily attributable to:

- $19.2 million increase in electricity sales primarily due to volume increases as a result of acquisitions in 2017 and in the first quarter 2018; and
- $13.3 million increase in electricity sales primarily due to higher production as a result of favorable wind conditions compared to 2017 and increased availability.

This increase in revenue was largely offset by:

- $3.4 million decrease in electricity sales attributable to curtailment at our Santa Isabel project.

Total revenue for the six months ended June 30, 2018 was $251.6 million compared to $208.6 million for the six months ended June 30, 2017, an increase of $43.0 million, or approximately 20.6%. The increase was primarily attributable to:

- $46.1 million increase in electricity sales due primarily to an increases in volume as a result of acquisitions in 2017 and in the first quarter 2018; and
- $9.1 million increase in other revenue, primarily due to a $5.8 million settlement for business interruption insurance for Santa Isabel.

These increases were partially offset by:

- $7.7 million increase in unrealized loss on energy derivative due to an increase in the forward gas price curves when compared to the prior period; and
- $3.8 million decrease in electricity sales primarily due to curtailment at Santa Isabel, partially offset by higher wind and availability.

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Cost of revenue

Cost of revenue for the three months ended June 30, 2018 was $96.3 million compared to $86.6 million for the three months ended June 30, 2017, an increase of $9.6 million, or approximately 11.1%. The increase in cost of revenue is primarily attributable to acquisitions completed in 2017 and 2018 which resulted in increases of $0.3 million in project expense, $2.9 million in transmission costs, and $6.5 million in depreciation.

Cost of revenue for the six months ended June 30, 2018 was $193.5 million compared to $159.6 million for the six months ended June 30, 2017, an increase of $33.9 million, or approximately 21.3%. The acquisitions in 2017 and 2018 resulted in increases of $5.7 million in project expense, $10.0 million in transmission costs, and $18.2 million in depreciation.

Operating expenses

Operating expenses for the three months ended June 30, 2018 were $17.0 million compared to $15.4 million for the three months ended June 30, 2017, a decrease of $1.6 million or 10.7%. The decrease in operating expenses was primarily attributable to a $1.2 million decrease in audit and consulting fees in 2018 compared to 2017. Operating expenses for the six months ended June 30, 2018 were $31.8 million compared to $29.9 million for the six months ended June 30, 2017, a decrease of $1.9 million, or approximately 6.2%. The decrease in operating expenses was primarily attributable to a $1.9 million decrease in audit fees.

Other expense

Other expense for the three months ended June 30, 2018 was $24.0 million compared to $15.9 million for the three months ended June 30, 2017, an increase of $8.1 million, or approximately 51.1%. The increase was primarily attributable to:

- $15.3 million decrease in earnings in unconsolidated investments, net primarily due to decreases in project income;
- $2.9 million increase in interest expense primarily due to debt associated with our acquisitions in 2017 and 2018;
- $1.2 million increase in net loss on transactions primarily related to the Japan Acquisition and assets held for sale; and
- $2.3 million increase in other income (expense), net due to increased contingent liability accretion.

These increases were partially offset by a $13.6 million increase in gain on derivatives, net primarily due to gains from foreign currency hedges.

Other expense for the six months ended June 30, 2018 was $29.5 million compared to $22.0 million for the six months ended June 30, 2017, an increase of $7.6 million, or approximately 34.5%. The change was primarily attributable to:

- $13.9 million decrease in earnings in unconsolidated investments, net primarily due to a decrease in project income;
- $5.8 million increase in interest expense primarily due to debt associated with our acquisitions in 2017 and 2018;
- $2.0 million increase in net loss on transactions primarily related to the Japan Acquisition and assets held for sale; and
- $5.8 million increase in other income (expense), net due to increased contingent liability accretion.

The increase in other expense was partially offset by a $19.9 million increase in gain on derivatives, net primarily due to gains from foreign currency hedges

Tax provision

Tax provision for the three months ended June 30, 2018 was comparable to the tax provision for the three months ended June 30, 2017.

The tax provision was $11.2 million for the six months ended June 30, 2018 compared $9.3 million for the six months ended June 30, 2017, a change of $1.9 million. The tax provision for the six months ended June 30, 2018 increased primarily due to a $1.3 million adjustment related to prior years recognized during the six months ended June 30, 2018.

Net loss

Net loss for the three months ended June 30, 2018 was $1.8 million compared to net loss of $14.7 million for the same period in the prior year; a decrease of $12.9 million, or 87.9%. The decrease in net loss was primarily attributable to:

- $32.2 million increase in revenue primarily due to our 2017 and 2018 acquisitions and a $2.7 million decrease in general and administrative expenses.

These increases were partially offset by;

- $9.6 million increase in cost of revenue also related to 2017 and 2018 acquisitions;
- $4.2 million increase in impairment loss related to Chile assets held for sale; and
- $8.1 million increase in other expense primarily related to decreased earnings from unconsolidated investments.

Net loss for the six months ended June 30, 2018 was $14.4 million compared to $12.1 million for the same period in the prior year; an increase of $2.2 million or 18.5%. The increase in net loss was primarily attributed to:

- $33.9 million increase in cost of revenue related to our 2017 and 2018 acquisitions;
- $4.2 million increase in impairment loss related to Chile assets held for sale;
- $7.6 million increase in other expense primarily related to decreased earnings from unconsolidated investments; and
- $1.9 million increase in tax provision primarily related to the $1.3 million adjustment related to prior years recognized during the six months ended June 30, 2018.

These increases were partially offset by:

- $43.0 million increase in revenues primarily associated with our 2017 and 2018 acquisitions, and a $3.1 million decrease in general and administrative expenses.

Noncontrolling interest

The net loss attributable to noncontrolling interest was $34.5 million for the three months ended June 30, 2018 compared to $28.9 million for the three months ended June 30, 2017. The increased loss of $5.6 million was attributable to increased allocations of losses to tax equity projects.

The net loss attributable to noncontrolling interest was $183.0 million for the six months ended June 30, 2018 compared to $32.0 million for the six months ended June 30, 2017. The increased loss of $151.0 million was attributable to increased allocations of losses to tax equity projects. The Tax Act reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result, for the six months ended June 30, 2018, included in net loss attributable to noncontrolling interest is a one-time adjustment of $150 million as a result of the decrease in the federal corporate income tax rate. See "Recent Developments - Noncontrolling Interests - Impact of the 2017 Tax Act.

Liquidity and Capital Resources

Our business requires substantial liquidity to fund (i) equity investments in our construction projects, (ii) current operational costs, (iii) debt service payments, (iv) dividends to our stockholders, (v) potential investments in new acquisitions, (vi) modifications to our projects, (vii) construction commitments, (viii) unforeseen events and (ix) other business expenses. As a part of our liquidity strategy, we plan to retain a portion of our cash flows in above-average wind years in order to have additional liquidity in below-average wind years.

Sources of Liquidity

Our sources of liquidity include cash generated by our operations, cash reserves, borrowings under our corporate and project-level credit agreements, construction financing arrangements and further issuances of equity and debt securities.

The principal indicators of our liquidity are our unrestricted and restricted cash balances and availability under our Revolving Credit Facility and project level facilities. Our available liquidity is as follows (in millions):

	June 30, 2018
Unrestricted cash	$ 116.5
Restricted cash	14.3
Revolving Credit Facility availability[(1)]	200.1
Project facilities:	
Post construction use	159.9
Construction facilities and loans	342.9
Total available liquidity	$ 833.7

[(1)] As of August 6, 2018, the amount available on the Revolving Credit Facility is $165.1 million.

We expect that for the remainder of 2018, we will have sufficient liquid assets, cash flows from operations, and borrowings available under our Revolving Credit Facility and construction facilities to meet our financial commitments, debt service obligations, dividend payments, contingencies and anticipated required capital expenditures for at least the next 24 months, not including capital required for additional project acquisitions or capital call on Pattern Development 2.0. However, we are subject to business and operational risks that could adversely affect our cash flow. A material decrease in our cash flows would likely produce a corresponding adverse effect on our borrowing capacity.
In connection with our future capital expenditures and other investments, including any project acquisitions that we may make, or capital call on Pattern Development 2.0 we elect to participate in, we may, from time to time, issue debt or equity securities. Our ability to access the debt and equity markets is dependent on, among other factors, the overall state of the debt and equity markets and investor appetite for investment in clean energy projects in general and our Class A shares in particular. Volatility in the market price of our Class A shares may prevent or limit our ability to utilize our equity securities as a source of capital to help fund acquisitions. An inability to obtain debt or equity financing on commercially reasonable terms could significantly limit our timing and ability to consummate future acquisitions, and to effectuate our growth strategy.
We have an equity distribution agreement (Equity Distribution Agreement). Pursuant to the terms of the Equity Distribution Agreement, we may offer and sell shares of our Class A common stock, par value $0.01 per share, from time to time, up to an aggregate sales price of $200 million. We intend to use the net proceeds from the sale of the shares for general corporate purposes, which may include the repayment of indebtedness and the funding of acquisitions and investments. For the six months ended June 30, 2018, we did not sell any shares under the Equity Distribution Agreement. As of June 30, 2018, approximately $144.2 million in aggregate offering price remained available to be sold under the agreement.
Subject to market conditions, we will continue to consider various forms of repricings, refinancings, and/or repayments of our project level finance facilities. No assurances, however, can be given that we will be able to consummate any such transactions, that the transactions can be consummated on terms that are financially favorable to us, or that such transactions will have the intended financial effects of improving the consolidated statements of operations, net cash provided by operating activities, or cash available for distribution.
Cash Flows
We use traditional measures of cash flow, including net cash provided by operating activities, net cash used in investing activities and net cash provided by financing activities, as well as cash available for distribution discussed earlier, to evaluate our periodic cash flow results. Below is a summary of our cash flows for each period (in millions):

	Six months ended June 30,	
	2018	2017
Net cash provided by operating activities	$123.5	$157.2
Net cash used in investing activities	(296.4)	(193.2)
Net cash provided by financing activities	181.8	117.5
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2.4)	2.2
Add: Net (decrease) in cash classified within current assets and liabilities held for sale	(13.6)	—
Net change in cash, cash equivalents and restricted cash	$(7.1)	$83.8

Net cash provided by operating activities

Net cash provided by operating activities was $123.5 million for the six months ended June 30, 2018 as compared to $157.2 million in the prior year, a decrease of $33.6 million, or approximately 21.4%. The decrease in cash provided by operating activities was primarily due to $10.0 million in increased transmission costs primarily due to acquisition in 2017, $5.7 million increase in project expenses related to projects acquired in the second half of 2017 and 2018, increased interest payments of $15.1 million, and increased payments of $56.4 million in payable, accrued, and current liabilities due primarily to the timing of payments. The decrease to net cash provided by operating activities was partially offset by a $53.1 million increase in revenue (excluding unrealized loss on energy derivative and amortization of PPAs).

Net cash used in investing activities

Net cash used in investing activities was $296.4 million for the six months ended June 30, 2018, which consisted of $157.5 million in cash paid, net of cash and restricted cash acquired, for the Japan Acquisition, $85.8 million primarily for construction costs related to projects acquired in the Japan Acquisition, and an additional investment of $57.1 million in Pattern Development 2.0.

Net cash used in investing activities was $193.2 million for the six months ended June 30, 2017, which consisted primarily of $170.0 million in cash paid, net of cash and restricted cash acquired for the Broadview Acquisition and $39.1 million for capital expenditures, offset by $8.4 million in distributions received from unconsolidated investments, and $7.5 million in reimbursement of interconnection costs.

Net cash provided by financing activities

Net cash provided by financing activities for the six months ended June 30, 2018 was $181.8 million. Net cash provided by financing activities consisted primarily of the following:

- $126.8 million in proceeds related to the loans issued at Tsugaru Holdings and Tsugaru subsequent to the acquisition; and
- $333.0 million in proceeds from other long-term debt and the Revolving Credit Facility.

Net cash provided by financing activities was partially offset by:

- $132.0 million in repayments of the Revolving Credit Facility;
- $82.5 million of dividend payments;
- $34.5 million in repayments and termination of long-term debt;
- $7.0 million in payments for deferred financing costs primarily associated with the issuance of debt associated with Tsugaru Holdings as described above; and
- $21.3 million in distributions to noncontrolling interests.

Net cash provided by financing activities for the six months ended June 30, 2017 was $117.5 million. Net cash provided by financing activities consisted primarily of the following:

- $350.0 million in proceeds from the issuance of the unsecured senior notes due 2024; and
- $139.4 million in proceeds from other long-term debt and the Revolving Credit Facility.

Net cash provided by financing activities were partially offset by:

- $205.0 million in repayment of the Revolving Credit Facility;
- $71.5 million of dividend payments;
- $74.8 million in repayments of long-term debt;
- $7.7 million in payments for deferred financing costs associated with the issuance of the unsecured senior notes due 2024; and
- $9.2 million in distributions to noncontrolling interests.

Uses of Liquidity

Cash Dividends to Investors

We intend to pay regular quarterly dividends in U.S. dollars to holders of our Class A common stock. On August 2, 2018, we declared an unchanged dividend of $0.4220 per share, or $1.688 per share on an annualized basis, to be paid on October 31, 2018 to holders of record on September 28, 2018. The following table sets forth the dividends declared on shares of Class A common stock for the periods indicated.

	Dividends Per Share	Declaration Date	Record Date	Payment Date
2018:				
Third Quarter	$ 0.4220	August 2, 2018	September 28, 2018	October 31, 2018
Second Quarter	$ 0.4220	May 3, 2018	June 29, 2018	July 31, 2018
First Quarter	$ 0.4220	February 22, 2018	March 30, 2018	April 30, 2018

We expect to pay a quarterly dividend on or about the 30th day following each fiscal quarter to holders of record of our Class A common stock on the last day of such quarter.

Capital Expenditures and Investments

We expect to make investments in additional projects in 2018 and provide further capital to Pattern Development 2.0, as well as fund the construction costs at Tsugaru. We have committed to acquire MSM from Pattern Development 1.0 for a purchase price of approximately CAD $53.0 million, which is currently expected to occur in 2018. As discussed above, on March 7, 2018, we completed the Japan Acquisition which included cash consideration of $176.6 million, which does not include contingent post-closing payments with fair value of approximately $105.9 million. During the six months ended June 30, 2018, we have funded $57.1 million into Pattern Development 2.0, and on August 9, 2018, we intend to fund an additional $29.0 million.

We also evaluate, from time to time, third-party acquisition opportunities. We believe that we will have sufficient cash and Revolving Credit Facility capacity to complete the funding of future commitments, but this may be affected by any other acquisitions or investments that we make. To the extent that we make any such investments or acquisitions, we will evaluate capital markets and other corporate financing sources available to us at the time. In addition, we will make investments, from time to time, at our operating projects. Operational capital expenditures are those capital expenditures required to maintain our long-term operating capacity. Capital expenditures for the projects are generally made at the project level using project cash flows and project reserves, although funding for major capital expenditures may be provided by additional project debt or equity. Therefore, the distributions that we receive from the projects may be made net of certain capital expenditures needed at the projects. For the year ending December 31, 2018, we have budgeted $2.3 million for operational capital expenditures and $17.3 million for expansion capital expenditures.

Contractual Obligations

We have a variety of contractual obligations and other commercial commitments that represent prospective cash requirements in addition to our capital expenditure programs. See also Note 10, Debt, and Note 17, Commitments and Contingencies, in the notes to consolidated financial statements for additional discussion of contractual obligations. As part of our acquisitions completed in the first quarter of 2018, we became party to various agreements and future commitments. The following table summarizes estimates of future commitments related to the various agreements entered into as part of those acquisitions (in thousands) as of June 30, 2018:

Contractual Obligations	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Project-level debt principal payments	$2,753	$28,935	$118,930	$136,749	$287,367
Project-level interest payments on debt instruments	2,108	9,657	8,417	14,263	34,445
Other	51,740	184,165	—	—	235,905
Operating leases	1,463	5,273	4,307	30,068	41,111
Service and maintenance agreements	1,511	8,978	12,547	44,853	67,889
Asset retirement obligations	—	—	—	38,132	38,132
Total	$59,575	$237,008	$144,201	$264,065	$704,849

Operating Leases

In March 2018, we entered into an operating lease for our new corporate headquarters in San Francisco, California. Total operating lease payments are approximately $35 million over the term of the lease which expires in December 2028.

Other Commitments

Other commitments consist of construction commitments related to the development of Tsugaru which is expected to commence commercial operations in early to mid-2020.

Off-Balance Sheet Arrangements

As of June 30, 2018, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Credit Agreements for Unconsolidated Investments

Below is a summary of our proportion of debt in unconsolidated investments, as of June 30, 2018 (in thousands):

	Total Project Debt	Percentage of Ownership		Our Portion of Unconsolidated Project Debt
Armow	$376,441	50.0	%	$ 188,221
South Kent	452,581	50.0	%	226,291
Grand	260,047	45.0	%	117,021
K2	555,247	33.3	%	185,064
Pattern Development 2.0	86,091	24.0	%	20,693
Unconsolidated investments - debt	$1,730,407			$ 737,290

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have significant exposure to commodity prices, interest rates and foreign currency exchange rates, as described below. To mitigate these market risks, we have entered into multiple derivatives. We have not applied hedge accounting treatment to all of our derivatives; therefore, we are required to mark some of our derivatives to market through earnings on a periodic basis, which will result in non-cash adjustments to our earnings and may result in volatility in our earnings, in addition to potential cash settlements for any losses.

Commodity Price Risk

We manage our commodity price risk for electricity sales primarily through the use of fixed price long-term power purchase agreements with creditworthy counterparties. Our financial results reflect approximately 331,057 MWh of electricity sales during the six months ended June 30, 2018 that were subject to spot market pricing. A hypothetical increase or decrease of 10% or $1.80 per MWh in the merchant market prices would have increased or decreased revenue by $0.6 million for the six months ended June 30, 2018.

In addition to the risks we face in broad commodity markets, many of our projects, especially in ERCOT, also face project-specific risks related to transmission system limitations which can result in local prices that are lower than the broader market prices (congestion). In the case of adverse congestion, our revenues are negatively impacted, and our PSAs do not protect us from these impacts, since under those contracts, this risk is fully allocated to our projects and not to the counterparty (e.g. we sell our power at the lower local price, but still have to buy power for the counterparty at the higher broad market or hub price). In the past these impacts have been material to our economic results, and we expect that congestion will continue to be a material risk in the future.

Interest Rate Risk

As of June 30, 2018, our long-term debt includes both fixed and variable rate debt. As long-term debt is not carried at fair value on the consolidated balance sheets, changes in fair value would impact earnings and cash flows only if we were to reacquire all or a portion of these instruments prior to their maturity. The fair market value of our outstanding convertible senior notes, or "debentures," is subject to interest rate risk, market price risk and other factors due to the convertible feature of the debentures. The fair market value of the debentures will generally increase as interest rates fall and decrease as interest rates rise. In addition, the fair market value of the debentures will generally increase as the market price of our Class A common stock increases and decrease as the market price of our Class A common stock falls. The interest and market value changes affect the fair market value of the debentures, but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligations, except to the extent that changes in the fair value of the debentures or value of Class A common stock permit the holders of the debentures to convert into shares. As of June 30, 2018, the estimated fair value of our debt was $2.2 billion and the carrying value of our debt was $2.2 billion. The fair value of variable interest rate long-term debt is approximated by its carrying cost. A hypothetical increase or decrease in market interest rates by 1% would have resulted in a $28.5 million decrease or $31.2 million increase in the fair value of our fixed rate debt.

We are exposed to fluctuations in interest rate risk as a result of our variable rate debt and outstanding amounts due under our Revolving Credit Facility. As of June 30, 2018, $201 million was outstanding under the Revolving Credit Facility. A hypothetical increase or decrease in interest rates by 1% would have a $2.0 million impact to interest expense related to our Revolving Credit Facility for the six months ended June 30, 2018.

We may use a variety of derivative instruments, with respect to our variable rate debt, to manage our exposure to fluctuations in interest rates, including interest rate swaps. As a result, our interest rate risk is limited to the unhedged portion of the variable rate debt. As of June 30, 2018, the unhedged portion of our variable rate debt was $279.5 million. A hypothetical increase or decrease in interest rates by 1% would have a $2.8 million impact to interest expense for the six months ended June 30, 2018.

Foreign Currency Exchange Rate Risk
Our power projects are located in the United States, Canada, Japan and Chile. As a result, our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we operate. When the U.S. dollar strengthens against foreign currencies, the relative value in revenue earned in the respective foreign currency decreases. When the U.S. dollar weakens against foreign currencies, the relative value in revenue earned in the respective foreign currency increases. A majority of our power sale agreements and operating expenditures are transacted in U.S. dollars, with a growing portion transacted in currencies other than the U.S. dollar, primarily the Canadian dollar and Japanese Yen. For the six months ended June 30, 2018, our financial results included C$30.8 million and ¥222.7 million of net income from our Canadian and Japanese operations, respectively. A hypothetical 10% weakening or strengthening of U.S. dollar would have increased or decreased net earnings of our Canadian and Japanese operations by $2.6 million for the six months ended June 30, 2018.
We have established a currency risk management program. The objective of the program is to mitigate the foreign exchange rate risk arising from transactions or cash flows that have a direct or underlying exposure in non-U.S. dollar denominated currencies in order to reduce volatility in our cash flow, which may have an adverse impact to our short-term liquidity or financial condition. For the six months ended June 30, 2018, we recognized a gain on foreign currency forward contracts of $10.9 million in gain (loss) on derivatives in the consolidated statements of operations. As of June 30, 2018, a 10% devaluation in the Canadian dollar and Japanese Yen to the United States dollar would result in our consolidated balance sheets being negatively impacted by a $49.4 million cumulative translation adjustment in accumulated other comprehensive loss.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act). In designing and evaluating the disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit of possible controls and procedures.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2018.

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Management continuously reviews disclosure controls and procedures, and internal control over financial reporting, and accordingly may, from time to time, make changes aimed at enhancing their effectiveness to ensure that our systems evolve with our business.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject, from time to time, to routine legal proceedings and claims arising out of the normal course of business. There has been no material change in the nature of our legal proceedings from the description provided in our Annual Report on Form 10-K for the year ended December 31, 2017, except the following:

During the third quarter of 2015, rights to appeal prior decisions granting the Renewable Energy Approval (REA) under Ontario's Environmental Protection Act for our K2 facility were exhausted without further appeal. As a result, a stay of a previously filed civil suit against the K2 facility pending final determination of the REA was lifted, allowing such suit to move forward if the claimants so chose to continue such suit. K2 reached a settlement agreement under which K2 waived entitlement to legal fees and in return for claimants agreeing to full dismissal of all pending claims. Such suit was subsequently dismissed in May 2018 concluding the matter.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should consider the risks described under the caption “Risk Factors” in the Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes in our risk factors as described in our Annual Report on Form 10-K, except the following:

While the energy industry in Canada in which we operate benefits from governmental support, such support is subject to change, and (in particular) the current administration in Ontario, Canada has proposed policies that have created regulatory uncertainty in Ontario’s clean energy sector.

The current administration in Ontario has made pledges to revamp the province’s energy policies (such as the cap-and-trade program) and taken steps to cancel and wind down certain contracts for renewable power projects that are in the pre-construction phase. We have no information to suggest that power contracts for operating projects in Ontario will be affected by future changes which may be made in policies; however, no assurances can be given that the current administration will not seek to amend renewable power contracts for operating projects, which could then include contracts for our projects in Ontario.

ITEM 5. OTHER INFORMATION

On August 6, 2018, Mr. Michael B. Hoffman resigned as a director of the Company. His resignation from the Board was not because of any disagreement with the Company.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1/A dated September 20, 2013 (Registration No. 333-190538)).
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1/A dated September 3, 2013 (Registration No. 333-190538)).
4.1	Form of Class A Stock Certificate (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1/A dated September 3, 2013 (Registration No. 333-190538)).
4.2	Indenture, dated July 28, 2015, among the Company, as issuer, Pattern US Finance Company LLC, as subsidiary guarantor, and Deutsche Bank Trust Company Americas, as trustee, related to 4.00% Convertible Senior Notes due 2020 (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed July 28, 2015).
4.3	Indenture, dated as of January 25, 2017, among the Company, Pattern US Finance Company LLC, as guarantor, and Deutsche Bank Trust Company Americas, as trustee, related to 5.875% Senior Notes due 2024 (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated January 20, 2017).
10.1	Purchase and Sale Agreement by and between the Company and Pattern Energy Group LP dated as of February 26, 2018 related to indirect interests in Green Power Tsugaru GK (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 27, 2018).
10.2	Purchase and Sale Agreement by and between the Company and Green Power Investment Corporation dated as of February 26, 2018 related to indirect interests in Green Power Tsugaru GK (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 27, 2018).
10.3	Purchase and Sale Agreement by and between the Company and Pattern Energy Group LP dated as of February 26, 2018 related to indirect interests in GK Green Power Kanagi, GK Green Power Otsuki and GK Green Power Futtsu (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated February 27, 2018).
10.4	Purchase and Sale Agreement by and between the Company and Green Power Investment Corporation dated as of February 26, 2018 related to indirect interests in GK Green Power Kanagi, GK Green Power Otsuki and Otsuki Wind Power Corporation (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated February 27, 2018).
10.5	Deferred Payment Agreement by and between the Company and Pattern Energy Group LP dated as of February 26, 2018 (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated February 27, 2018).
10.6	Form of Restricted Stock Agreement under 2013 Equity Incentive Award Plan (Incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018).

10.7	Form of TSR Performance Restricted Stock Agreement under 2013 Equity Incentive Award Plan (Incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018).
10.8	Consent and Waiver Agreement dated as of May 21, 2018 entered into by Public Sector Pension Investment Board and the Company related to the Conejo Solar project (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8K dated May 25, 2018).
10.9	Waiver Agreement dated as of May 21, 2018 entered into by Pattern Energy Group LP and the Company related to the Conejo Solar project (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8K dated May 25, 2018).
31.1	Certifications of the Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications of the Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32*	Certifications of the Company's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the Company for purposes of Section 18 of the Exchange Act.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Pattern Energy Group Inc.

Dated: August 9, 2018 By: /s/ Michael J. Lyon
Michael J. Lyon
Chief Financial Officer

(On behalf of the Registrant and as Principal Financial Officer)