HALCON RESOURCES CORP
Form S-4
May 18, 2012
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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 18, 2012

REGISTRATION NO. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Halcón Resources Corporation

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**1311**	**20-0700684**
(State or Other Jurisdiction of	**(Primary Standard Industrial**	**(I.R.S. Employer**

Incorporation or Organization)	**Classification Code Number)**	**Identification Number)**

1000 Louisiana, Suite 6700

Houston, Texas 77002

(832) 538-0300

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Floyd C. Wilson

Chief Executive Officer

Halcón Resources Corporation

1000 Louisiana, Suite 6700

Houston, Texas 77002

(832) 538-0300

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies To:

William T. Heller IV	**Frank A. Lodzinski**	**Reid A. Godbolt**
Thompson & Knight LLP	**President and Chief Executive Officer**	**Jones & Keller, P.C.**
333 Clay St., Suite 3300	**GeoResources, Inc.**	**1999 Broadway, Suite 3150**
Houston, Texas 77002	**110 Cypress Station Drive, Suite 220**	**Denver, Colorado 80202**
(713) 654-8111	**Houston, Texas 77090**	**(303) 573-1600**
	(281) 537-9920	

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the effectiveness of this registration statement and the satisfaction or waiver of all other conditions to the closing of the merger described herein.

If the securities being registered on this form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) ¨

Exchange Act Rule 14d-1(d) (Cross-Border Issuer Third Party Tender Offer) ¨

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	**AMOUNT TO BE REGISTERED (1)**	**PROPOSED MAXIMUM OFFERING PRICE PER SHARE**	**PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)**	**AMOUNT OF REGISTRATION FEE (3)**
Common Stock, par value $0.0001	53,026,000	N/A	$412,098,687	$47,227

(1) Represents the estimated maximum number of shares of the Registrant s common stock to be issued in connection with the merger described herein. The number of shares of common stock is based on the number of shares of GeoResources, Inc. (GeoResources) common stock, the shares of GeoResources common stock issuable upon exercise of outstanding options and warrants and the number of shares of unvested restricted stock units of GeoResources, each as outstanding as of May 15, 2012 and the exchange of such securities for shares of the Registrant s common stock pursuant to the formulas set forth in the Agreement and Plan of Merger, dated as of April 24, 2012, by and among GeoResources, Leopard Sub I, Inc., Leopard Sub II, LLC and the Registrant.

(2) Estimated solely for purposes of calculating the registration fee required by Section 6(b) of the Securities Act, and calculated pursuant to Rules 457(f) and 457(c) under the Securities Act. The proposed maximum aggregate offering price of the Registrant s common stock was calculated based upon the market value of shares of GeoResources common stock (the securities to be converted in the merger) in accordance with Rule 457(c) under the Securities Act as follows: (i) the product of (a) $35.02, the average of the high and low prices per share of GeoResources common stock on May 15, 2012, as quoted on the NASDAQ Global Select Market and (b) and 27,445,800 (the number of shares of GeoResources common stock outstanding, plus the number of GeoResources restricted stock units outstanding and the number of shares reserved for issuance upon the exercise of outstanding options and warrants to purchase shares of GeoResources common stock), less (ii) the maximum amount of cash to be paid by the Registrant in exchange for shares of GeoResources common stock.

(3) Determined in accordance with Section 6(b) of the Securities Act at a rate equal to $114.60 per $1,000,000 of the proposed maximum aggregate offering price.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this joint proxy statement/prospectus is not complete and may be changed. Halcón Resources Corporation may not sell the securities offered by this joint proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This joint proxy statement/prospectus is not an offer to sell these securities nor should it be considered a solicitation of an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 18, 2012

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Halcón Resources Corporation, which we refer to as Halcón, and GeoResources, Inc., which we refer to as GeoResources, have entered into an agreement and plan of merger dated as of April 24, 2012, as it may be amended from time to time, which we refer to as the merger agreement and which is attached as Annex A to this joint proxy statement/prospectus and incorporated herein by reference. Under the merger agreement, a wholly owned subsidiary of Halcón, which we refer to as Merger Sub, will merge with and into GeoResources, at which time the separate existence of Merger Sub will cease, and Halcón will be the parent company of GeoResources and its subsidiaries. We refer to this as the merger. Promptly following the completion of the merger, GeoResources as the surviving corporation from the merger will merge with and into another wholly owned subsidiary of Halcón, which we refer to as Second Merger Sub, with Second Merger Sub surviving the second merger. We refer to this as the subsequent merger. The obligations of Halcón and GeoResources to effect the merger are subject to the satisfaction or waiver of several conditions set forth in the merger agreement. If the merger is completed pursuant to the merger agreement, each GeoResources stockholder will receive $20.00 in cash and 1.932 shares of Halcón common stock, which we collectively refer to as the merger consideration, for each share of GeoResources common stock held immediately prior to the effective time. The stock exchange ratio and cash amount are fixed and will not be adjusted to reflect changes in the stock price of Halcón common stock or GeoResources common stock.

In connection with the proposed merger, Halcón and GeoResources will each hold a special meeting of their respective stockholders. At Halcón s special meeting, Halcón stockholders will be asked to vote on (i) a proposal to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement, (ii) a proposal to elect, conditioned upon closing of the merger, one individual, as mutually agreed by Halcón and GeoResources, as an additional Class A director to the Halcón board of directors and (iii) a proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement or to elect one additional Class A director to Halcón s board of directors at the time of the special meeting. At GeoResources special meeting, GeoResources stockholders will be asked to vote on (i) a proposal to approve and adopt the merger agreement, (ii) a non-binding, advisory proposal to approve the compensation that may become payable to GeoResources named executive officers in connection with the merger and (iii) a proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve and adopt the merger agreement at the time of the special meeting.

The board of directors of Halcón unanimously: (i) has determined that the merger agreement and the transactions contemplated thereby, including the merger, are fair to, and in the best interests of, Halcón and its stockholders; (ii) has approved the merger agreement, the merger and the other transactions contemplated thereby; and (iii) recommends that the stockholders of Halcón vote FOR the approval of the issuance of shares of Halcón common stock in connection with the merger, FOR the proposal to elect one additional Class A director to the Halcón board of directors, and FOR the proposal to authorize Halcón s board of directors to adjourn the special meeting. The issuance of shares of Halcón common stock in the merger requires the affirmative vote of a majority of the votes cast in person or by proxy and entitled to vote at the Halcón special meeting. The election of the Class A director requires the affirmative vote by a plurality of votes cast in person or by proxy and entitled to vote at the Halcón special meeting. To approve the proposal to authorize Halcón s board of directors to adjourn the special meeting requires the affirmative vote of a majority of the stock present in person or by proxy and entitled to vote at the Halcón special meeting.

The board of directors of GeoResources unanimously: (i) has determined that the merger agreement, the merger, in accordance with the terms of the merger agreement, and the other transactions contemplated thereby are advisable, fair to, and in the best interests of GeoResources and its stockholders; (ii) has approved and adopted the merger agreement and approved the merger and the other transactions contemplated thereby; (iii) has directed that the merger agreement be submitted to a vote of the GeoResources stockholders at the GeoResources special meeting; and (iv) recommends that the stockholders of GeoResources vote FOR the proposal to approve and adopt the merger agreement, FOR the proposal to approve, on an advisory basis, the compensation that may become payable to GeoResources named executive officers in connection with the merger, and FOR any proposal to authorize GeoResources board of directors, in its discretion, to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve and adopt the merger agreement at the time of the special meeting. The approval of the merger agreement requires the affirmative vote of the holders of at least a majority of the shares of GeoResources common stock issued and outstanding and entitled to vote at the GeoResources special meeting. The affirmative vote of a majority of the votes cast by holders of GeoResources common stock at the GeoResources special meeting is required to approve (i) on a non-binding, advisory basis, the compensation that may be paid or become payable to GeoResources named executive officers that is based on or otherwise relates to the merger and (ii) the proposal to adjourn the GeoResources special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the GeoResources special meeting to approve and adopt the merger agreement.

Your vote is important. We cannot complete the merger unless the GeoResources stockholders approve and adopt the merger agreement and the Halcón stockholders approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement at their respective stockholder meetings. The obligations of Halcón and GeoResources to complete the merger are also subject to the satisfaction or waiver of certain other conditions to the merger. The places, dates and times of the respective stockholder meetings of Halcón and GeoResources are as follows:

For Halcón stockholders:	**For GeoResources stockholders:**
a.m. local time,	**a.m. local time,**
, 2012	**, 2012**

This joint proxy statement/prospectus gives you detailed information about the respective stockholder meetings of Halcón and GeoResources and the proposed merger. **We urge you to read this joint proxy statement/prospectus carefully, including Risk Factors beginning on page for a discussion of the risks relating to the merger.** Whether or not you plan to attend your meeting, to ensure your shares are represented at the meeting, please vote as soon as possible by either completing and submitting the enclosed proxy card or voting using the telephone or Internet voting procedures described on your proxy card.

Halcón common stock is traded on the New York Stock Exchange under the symbol HK. GeoResources common stock is traded on the NASDAQ Global Select Market under the symbol GEOI.

Neither the Securities and Exchange Commission, which we refer to as the SEC, nor any state securities commission has approved or disapproved of the merger or the securities to be issued under this joint proxy statement/prospectus or has passed upon the adequacy or accuracy of the disclosures in this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated , 2012 and is first being mailed to Halcón stockholders and GeoResources stockholders on or about , 2012.

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HALCÓN RESOURCES CORPORATION

1000 Louisiana, Suite 6700

Houston, Texas 77002

(832) 538-0300

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON , 2012

To the Stockholders of Halcón Resources Corporation:

We are pleased to invite you to attend a special meeting of the stockholders of Halcón Resources Corporation, a Delaware corporation, which we refer to as Halcón, which will be held at , on , 2012 at a.m., local time, for the following purposes:

1. To consider and vote upon a proposal to approve the issuance of shares of common stock, par value $0.0001 per share, of Halcón pursuant to the Agreement and Plan of Merger dated as of April 24, 2012 by and among Halcón, two wholly owned subsidiaries of Halcón, and GeoResources, Inc., a Colorado corporation, referred to as GeoResources.

2. To elect, conditioned upon closing of the merger, one nominee to the board of directors to serve as a Class A director until his successor is duly elected or until his earlier death, resignation, or removal.

3. To consider and vote on any proposal to authorize Halcón s board of directors, in its discretion, to adjourn the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement at the time of the special meeting.

We do not expect to transact any other business at the special meeting. Halcón s board of directors has fixed the close of business on , 2012 as the record date for determining those Halcón stockholders entitled to vote at the special meeting and any adjournment or postponement thereof. Accordingly, only stockholders of record at the close of business on that date are entitled to notice of, and to vote at, the special meeting. A complete list of the Halcón stockholders will be available for examination at the offices of Halcón in Houston, Texas during ordinary business hours for a period of 10 days prior to the special meeting.

The board of directors of Halcón recommends that Halcón stockholders vote FOR each of the proposals to be voted on at the special meeting.

We cordially invite you to attend the special meeting in person. However, to ensure your representation at the special meeting, please complete and promptly mail your proxy card in the return envelope enclosed, or authorize the individuals named on your proxy card to vote your shares by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card or voting instruction card. This will not prevent you from voting in person, but will help to secure a quorum and avoid added solicitation costs. If your shares are held in street name by your broker or other nominee, only that holder can vote your shares and the vote cannot be cast unless you provide instructions to your broker. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Your proxy may be revoked at any time before it is voted. Please review the joint proxy statement/prospectus accompanying this notice for more complete information regarding the matters to be voted on at the meeting.

By Order of the Board of Directors

Floyd C. Wilson
Chairman and Chief Executive Officer

Houston, Texas

, 2012

IMPORTANT: WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, WE ASK YOU TO COMPLETE AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED OR TO VOTE BY TELEPHONE OR ON THE INTERNET USING THE INSTRUCTIONS ON THE PROXY CARD.

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GEORESOURCES, INC.

110 Cypress Station Drive, Suite 220

Houston, Texas 77090

(281) 537-9920

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON , 2012

To the Stockholders of GeoResources, Inc.:

We are pleased to invite you to attend a special meeting of the stockholders of GeoResources, Inc., a Colorado corporation, which we refer to as GeoResources, which will be held at , on , 2012 at a.m., local time, for the following purposes:

1. To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger dated as of April 24, 2012, as it may be amended from time to time, which we refer to as the merger agreement, by and among Halcón Resources Corporation, which we refer to as Halcón, two wholly owned subsidiaries of Halcón, and GeoResources, pursuant to which a wholly owned subsidiary of Halcón will merge with and into GeoResources.

2. To consider and vote, on a non-binding, advisory basis, on the proposal to approve the compensation that may become payable to GeoResources named executive officers in connection with the merger; and

3. To consider and vote on any proposal to authorize GeoResources board of directors, in its discretion, to adjourn the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve and adopt the merger agreement at the time of the special meeting.

We do not expect to transact any other business at the special meeting. GeoResources board of directors has fixed the close of business on , 2012 as the record date for determining those GeoResources stockholders entitled to vote at the special meeting and any adjournment or postponement thereof. Accordingly, only stockholders of record at the close of business on that date are entitled to notice of, and to vote at, the special meeting. A complete list of the GeoResources stockholders will be available for examination at the offices of GeoResources in Houston, Texas during ordinary business hours for a period of 10 days prior to the special meeting.

The board of directors of GeoResources recommends that GeoResources stockholders vote FOR the proposals to be voted on at the special meeting.

Under the Colorado Business Corporation Act, if the merger is completed, holders of GeoResources common stock who do not vote in favor of approval and adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares, but only if they submit a written demand for such an appraisal prior to the vote on the merger agreement and they comply with the other Colorado law procedures and requirements explained in the accompanying joint proxy statement/prospectus. A copy of Article 113 of the Colorado Business Corporation Act is attached to this joint proxy statement/prospectus as Annex F.

We cordially invite you to attend the special meeting in person. However, to ensure your representation at the special meeting, please complete and promptly mail your proxy card in the return envelope enclosed, or authorize the individuals named on your proxy card to vote your shares by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card or voting instruction card. This will not prevent you from voting in person, but will help to secure a quorum and avoid added solicitation costs. If your shares are held in street name by your broker or other nominee, only that holder can vote your shares and the vote cannot be cast unless you provide instructions to your broker. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Your proxy may be revoked at any time before it is voted. Please review the joint proxy statement/prospectus accompanying this notice for more complete information regarding the merger and the special meeting.

By Order of the Board of Directors

Frank A. Lodzinski
Chairman, President and Chief Executive Officer

Houston, Texas

, 2012

IMPORTANT: WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, WE ASK YOU TO COMPLETE AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED OR TO VOTE BY TELEPHONE OR ON THE INTERNET USING THE INSTRUCTIONS ON THE PROXY CARD.

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ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates by reference important business and financial information about Halcón and GeoResources from documents that are not included in or delivered with this joint proxy statement/prospectus. See Where You Can Find More Information on page . This information is available to you without charge upon your written or oral request. You can obtain documents incorporated by reference in this joint proxy statement/prospectus by requesting them in writing or by telephone from Halcón or GeoResources at the following addresses:

Halcón Resources Corporation	GeoResources, Inc.
1000 Louisiana, Suite 6700	110 Cypress Station Drive, Suite 220
Houston, Texas 77002	Houston, Texas 77090
(832) 538-0300	(281) 537-9920
Attention: Investor Relations	Attention: Investor Relations

You also may obtain these documents at the SEC s website, www.sec.gov, and you may obtain certain of these documents at Halcón s website, www.halconresources.com, by selecting Investor Relations, then selecting Financial Information and then selecting SEC Filings, and at GeoResources website, www.georesourcesinc.com, by selecting Investor Relations and then selecting SEC Documents. Information contained on the Halcón and GeoResources websites is expressly not incorporated by reference into this joint proxy statement/prospectus. **To receive timely delivery of the documents in advance of the Halcón special meeting of stockholders or the GeoResources special meeting of stockholders, your request should be received no later than , 2012.**

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What is the proposed transaction?

A: Halcón and GeoResources have entered into a merger agreement pursuant to which Merger Sub will merge with and into GeoResources, with GeoResources surviving the merger as a wholly owned subsidiary of Halcón. We refer to this as the merger. Promptly following the completion of the merger, GeoResources as the surviving corporation from the merger will merge with and into Second Merger Sub, with Second Merger Sub surviving the second merger. We refer to this as the subsequent merger. At the effective time of the merger, each issued and outstanding share of GeoResources common stock (other than dissenting shares) will be converted automatically into the right to receive (i) $20.00 in cash, and (ii) 1.932 shares of Halcón common stock, par value $0.0001 per share, as described under The Merger Agreement Merger Consideration beginning on page .

Q: Why are Halcón and GeoResources proposing the merger?

A: The boards of directors of Halcón and GeoResources have each concluded that the merger is in the best interests of their stockholders.

As set forth in greater detail elsewhere in this joint proxy statement/prospectus, Halcón s board of directors considered many factors in making its recommendations to Halcón s stockholders. Among the factors considered were:

- The combination will increase estimated proved reserves to approximately 50.3 MMBoe, 70% of which is oil and natural gas liquids;
- The combination will increase average net daily production to approximately 10,200 Boe, based on fourth quarter 2011 production rates;
- The merger will provide Halcón with a larger portfolio of exploitation and exploration opportunities in liquids prone resource plays within areas targeted by Halcón; and
- The presentation and opinion of Barclays to the effect that, as of the date of the opinion and based upon the assumptions, limitations, qualifications and conditions stated in the opinion letter, from a financial point of view, the merger consideration was fair to Halcón, as more fully described below under the caption Opinion of Barclays to the Halcón Board of Directors.

For more information regarding the factors considered by Halcón s board of directors, see The Merger Recommendation of Halcón s Board of Directors and Reasons for the Merger beginning on page .

As set forth more in greater detail elsewhere in this joint proxy statement/prospectus, GeoResources board of directors considered many factors in making its recommendations to GeoResources stockholders. Among the factors considered were:

- GeoResources stockholders would receive, for each share of GeoResources common stock they hold, $20.00 in cash and 1.932 shares of Halcón common stock, and the stock portion of the merger consideration should be received on a tax-deferred basis;

The merger consideration represented a premium of approximately 23% and 19% based on the closing prices of GeoResources common stock and Halcón common stock, respectively, on the last trading day prior to execution of the merger agreement and over the 30-day trading period ending on such date;

GeoResources stockholders will have the opportunity to participate in the combined company s growth and share appreciation in the future should they retain their Halcón common stock after the merger; and

the opinion of Wells Fargo Securities, dated April 24, 2012 and based on the assumptions, limitations, qualifications and conditions stated in the opinion letter, as to the fairness, from a financial point of view, of the merger consideration to be received by holders of GeoResources common stock (other than Halcón and its affiliates) pursuant to the merger agreement, as more fully described below under the caption Opinion of Wells Fargo Securities to the GeoResources Board of Directors.

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For more information regarding the factors considered by GeoResources board of directors, see The Merger Recommendation of GeoResources Board of Directors and Reasons for the Merger beginning on page .

Q: Why am I receiving this joint proxy statement/prospectus?

A: Halcón s and GeoResources boards of directors are using this joint proxy statement/prospectus to solicit proxies of Halcón and GeoResources stockholders in connection with the merger agreement and the merger. In addition, Halcón is using this joint proxy statement/prospectus as a prospectus for GeoResources stockholders because Halcón is offering shares of its common stock to be issued in exchange for shares of GeoResources common stock in the merger.

In order to complete the merger, Halcón stockholders must vote to approve the issuance of shares of Halcón common stock to GeoResources stockholders and to elect, conditioned upon closing of the merger, one nominee mutually agreed by Halcón and GeoResources, as an additional Class A director to the Halcón board of directors pursuant to the merger agreement, and GeoResources stockholders must vote to approve and adopt the merger agreement. GeoResources stockholders will also vote on a non-binding, advisory proposal to approve the compensation that may become payable to GeoResources named executive officers in connection with the merger.

Halcón and GeoResources will hold separate special meetings of their respective stockholders to obtain these approvals. This joint proxy statement/prospectus contains important information about the merger and the special meetings of the stockholders of Halcón and GeoResources, and you should read it carefully. The enclosed voting materials allow you to vote your shares of Halcón common stock and/or GeoResources common stock, as applicable, without attending the applicable special meeting.

We encourage you to submit your proxy as promptly as possible.

Q: When and where is the special meeting of Halcón stockholders?

A: Halcón s special meeting will be held at , on , 2012 at a.m., local time.

Q: When and where is the special meeting of GeoResources stockholders?

A: GeoResources special meeting will be held at , on , 2012 at a.m., local time.

Q: Who can vote at the special meetings?

A: All Halcón stockholders of record as of the close of business on , 2012, the record date for determining stockholders entitled to notice of and to vote at Halcón s special meeting, are entitled to receive notice of and to vote at Halcón s special meeting. As of the record date, there were shares of Halcón common stock outstanding and entitled to vote at the Halcón special meeting, held by approximately, holders of record. Each share of Halcón common stock is entitled to one vote on each proposal presented at Halcón s special meeting.

All GeoResources stockholders of record as of the close of business on , 2012, the record date for determining stockholders entitled to notice of and to vote at GeoResources special meeting, are entitled to receive notice of and to vote at GeoResources special meeting. As of the record date, there were shares of GeoResources common stock outstanding and entitled to vote at the GeoResources special meeting, held by approximately holders of record. Each share of GeoResources common stock is entitled to one vote on each proposal presented at GeoResources special meeting.

Q: What constitutes a quorum?

A: Halcón s bylaws provide that a majority of the outstanding shares of Halcón common stock entitled to vote generally in the election of directors, represented in person or by proxy, constitutes a quorum at a meeting of its stockholders.

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GeoResources bylaws provide that a majority of the outstanding shares of GeoResources common stock entitled to vote at the meeting, represented in person or by proxy, constitutes a quorum at a meeting of its stockholders.

Shares that are voted and shares abstaining from voting are treated as being present at each of the Halcón special meeting and the GeoResources special meeting, as applicable, for purposes of determining whether a quorum is present.

Q: What vote is required to approve the proposals at Halcón s special meeting and GeoResources special meeting?

A: Approval of the proposal of Halcón to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement requires the affirmative vote of the holders of at least a majority of the votes cast on such proposal, provided that the total votes cast on the proposal represent at least a majority of the outstanding shares of Halcón common stock. Approval of the proposal of Halcón to elect one additional Class A director to Halcón s board of directors requires the affirmative vote of the holders of at least a plurality of the votes cast. Approval of the proposal of Halcón to authorize Halcón s board of directors, in its discretion, to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the issuance of shares of Halcón common stock pursuant to the merger agreement or the proposal to elect one additional Class A director requires the affirmative vote of the holders of at least a majority of the outstanding shares of Halcón common stock represented in person or by proxy at the special meeting and entitled to vote on such proposal.

Approval of the proposal of GeoResources to approve and adopt the merger agreement requires the affirmative vote of the holders of at least a majority of the outstanding shares of GeoResources common stock entitled to vote. Approval of (i) the non-binding, advisory proposal to approve the compensation that may become payable to GeoResources named executive officers in connection with the merger and (ii) the proposal to authorize GeoResources board of directors, in its discretion, to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve and adopt the merger agreement at the time of the special meeting each requires the affirmative vote of the holders of at least a majority of the shares of GeoResources common stock represented in person or by proxy at the special meeting and entitled to vote on such proposal.

Your vote is important. We encourage you to submit your proxy as promptly as possible.

Q: If my shares of Halcón common stock or GeoResources common stock are held in street name by my broker or other nominee, will my broker or other nominee vote my shares of Halcón common stock or GeoResources common stock for me? What happens if I do not vote for a proposal?

A: Unless you instruct your broker or other nominee how to vote your shares of Halcón common stock or GeoResources common stock, as applicable, held in street name, your shares will NOT be voted. This is referred to as a broker non-vote. If you hold your shares in a stock brokerage account or if your shares are held by a bank or other nominee (that is, in street name), you must provide your broker or other nominee with instructions on how to vote your shares. Please follow the voting instructions provided by your broker or other nominee on the enclosed voting instruction card. You should also be aware that you may not vote shares of Halcón common stock or GeoResources common stock held in street name by returning a proxy card directly to Halcón or GeoResources or by voting in person at the Halcón or GeoResources special meetings unless you provide a legal proxy, which you must obtain from your broker or other nominee.

If you are a Halcón stockholder, abstentions will be counted in determining the presence of a quorum, but broker non-votes will not be counted in determining the presence of a quorum. Broker non-votes will not be counted as votes cast with regard to the proposal to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement, and as such, broker non-votes could result in there not being sufficient votes cast on such proposal. Abstentions will have the same effect as votes cast AGAINST the proposal to authorize Halcón s board of directors, in its discretion, to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement or the proposal to elect one additional Class A director, but broker non-votes will have no effect on such proposal.

If you are a GeoResources stockholder, abstentions will be counted in determining the presence of a quorum, but broker non-votes will not be counted in determining the presence of a quorum. Abstentions will have the same effect as votes cast AGAINST (i) the proposal to approve and adopt the merger agreement, (ii) the non-binding, advisory proposal to approve the compensation that may become payable to GeoResources named executive officers in connection with the merger and (iii) the proposal to authorize GeoResources board of directors, in its discretion, to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve and adopt the merger agreement at the time of the special meeting. Broker non-votes will have the same effect as votes cast AGAINST the approval and adoption of the merger agreement, but will have no effect on the non-binding, advisory proposal to approve the compensation that may become payable to GeoResources named executive officers in connection with the merger or the proposal to authorize GeoResources board of directors, in its discretion, to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve and adopt the merger agreement at the time of the special meeting.

Q: If I am a GeoResources stockholder, should I send in my stock certificates with my proxy card?

A: NO. Please DO NOT send your GeoResources stock certificates with your proxy card. If the merger is approved and adopted, you will be sent written instructions for exchanging your stock certificates.

Q: What are the tax consequences of the merger?

A: The merger, combined with the subsequent merger, is intended to qualify as a reorganization pursuant to section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. Assuming the merger and the subsequent merger, on a combined basis, qualifies as a reorganization, a GeoResources stockholder generally will recognize (i.e., take into account for tax purposes) gain (but not loss) equal to the lesser of (1) the excess of the sum of the cash (including cash instead of a fractional share of Halcón common stock) and the fair market value of the Halcón common stock received over such stockholder s adjusted tax basis in the GeoResources stock surrendered, or (2) the amount of cash received.

If you are a non-U.S. holder of GeoResources common stock, your tax treatment and whether you are taxable as a result of the merger will differ from what is described above and will depend on the percentage of GeoResources common stock that you own and your individual circumstances at the effective time of the merger.

Tax matters are very complicated, and the tax consequences of the merger to a particular stockholder will depend on such stockholder s circumstances. Accordingly, GeoResources and Halcón urge you to consult your tax advisor for a full understanding of the tax consequences of the merger to you, including the applicability and effect of U.S. federal, state, local and foreign income and other tax laws. For a more complete discussion of the material U.S. federal income tax consequences of the merger, see Material U.S. Federal Income Tax Consequences beginning on page .

Q: Are GeoResources stockholders entitled to appraisal rights?

A: Yes. GeoResources stockholders who do not vote in favor of the proposal of GeoResources to adopt the merger agreement will be entitled to dissent to the merger pursuant to Article 113 of the Colorado Business Corporation Act, which we refer to as the CBCA, and obtain the fair value of the stockholders shares if such rights are properly demanded and perfected and not withdrawn or lost and the merger is completed.

Q: How does Halcón s board of directors recommend that Halcón stockholders vote?

A: Halcón s board of directors has unanimously (i) determined that the merger agreement, the merger and the other transactions contemplated thereby are advisable, fair to, and in the best interests of Halcón and its stockholders, (ii) approved the merger agreement, the merger and the other transactions contemplated thereby, and (iii) approved the election of one additional Class A director.

Halcón s board of directors unanimously recommends that Halcón stockholders vote FOR the proposal to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement, FOR the proposal to elect one additional Class A director to Halcón s board and FOR any proposal to authorize Halcón s board of directors, in its discretion, to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement. For a more complete description of the recommendation of Halcón s board of directors, see The Merger Recommendation of Halcón s Board of Directors and Reasons for the Merger beginning on page .

Q: How does GeoResources board of directors recommend that GeoResources stockholders vote?

A: GeoResources board of directors has unanimously (i) determined that the merger agreement, the merger and the other transactions contemplated thereby are advisable, fair to, and in the best interests of GeoResources and its stockholders, and (ii) approved the merger agreement, the merger and the other transactions contemplated by the merger agreement.

GeoResources board of directors unanimously recommends that GeoResources stockholders vote FOR the proposal to approve and adopt the merger agreement, FOR the proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to GeoResources named executive officers in connection with the merger, and FOR any proposal to authorize GeoResources board of directors, in its discretion, to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve and adopt the merger agreement at the time of the special meeting. For a more complete description of the recommendation of GeoResources board of directors, see The Merger Recommendation of GeoResources Board of Directors and Reasons for the Merger beginning on page .

Q: How will Halcón stockholders be affected by the merger and share issuance?

A: After the merger, each Halcón stockholder will continue to own the shares of Halcón common stock that the stockholder held immediately prior to the merger. However, because Halcón will be issuing new shares of Halcón common stock to GeoResources stockholders in the merger, each outstanding share of Halcón common stock immediately prior to the merger will represent a smaller percentage of the aggregate number of shares of Halcón common stock outstanding after the merger. As a result of the merger, each Halcón stockholder will own shares in a larger company with more assets.

Q: What do I need to do now?

A: After you have carefully read this joint proxy statement/prospectus, please respond by completing, signing and dating your proxy card or voting instruction card and returning it in the enclosed preaddressed postage-paid envelope or, if available, by submitting your proxy by one of the other methods specified in your proxy card or voting instruction card as promptly as possible so that your shares of Halcón common stock or GeoResources common stock will be represented and voted at Halcón s special meeting or GeoResources special meeting, as applicable.

Please refer to your proxy card or voting instruction card forwarded by your broker or other nominee to see which voting options are available to you.

The method by which you submit a proxy will in no way limit your right to vote at Halcón s special meeting or GeoResources special meeting if you later decide to attend the meeting in person. However, if your shares of Halcón common stock or GeoResources common stock are held in the name of a broker or other nominee, you must obtain a legal proxy, executed in your favor, from your broker or other nominee, to be able to vote in person at Halcón s special meeting or GeoResources special meeting.

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Q: How will my proxy be voted?

A: All shares of Halcón common stock entitled to vote and represented by properly completed proxies received prior to Halcón s special meeting, and not revoked, will be voted at Halcón s special meeting as instructed on the proxies. If you properly sign, date and return a proxy card, but do not indicate how your shares of Halcón common stock should be voted on a matter, the shares of Halcón common stock represented by your proxy will be voted as Halcón s board of directors recommends and therefore FOR the approval of the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement, FOR the election of one additional Class A director to Halcón s board, and FOR the proposal to authorize Halcón s board of directors, in its discretion, to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement. If you do not provide voting instructions to your broker or other nominee, your shares of Halcón common stock will NOT be voted at the meeting and will be considered broker non-votes.

All shares of GeoResources common stock entitled to vote and represented by properly completed proxies received prior to GeoResources special meeting, and not revoked, will be voted at GeoResources special meeting as instructed on the proxies. If you properly sign, date and return a proxy card (to GeoResources for shares not held in street name, or to your broker or other nominee), but do not indicate how your shares of GeoResources common stock should be voted on a matter, the shares of GeoResources common stock represented by your proxy will be voted as GeoResources board of directors recommends and therefore FOR the proposal to approve and adopt the merger agreement, FOR the proposal to approve, on a non-binding, advisory basis, the compensation that may become payable to GeoResources named executive officers in connection with the merger and FOR the proposal to authorize GeoResources board of directors, in its discretion, to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve and adopt the merger agreement at the time of the special meeting. If you do not provide voting instructions to your broker or other nominee, your shares of GeoResources common stock will NOT be voted at the meeting and will be considered broker non-votes.

Q: Can I revoke my proxy or change my vote after I have delivered my proxy?

A: Yes. You may revoke your proxy or change your vote at any time before your proxy is voted at Halcón s special meeting or GeoResources special meeting, as applicable. If you are a holder of record, you can do this in any of the three following ways:

- by sending a written notice to the Secretary of Halcón or the Secretary of GeoResources, as applicable, at the address set forth below, in time to be received before Halcón s special meeting or GeoResources special meeting, as applicable, stating that you would like to revoke your proxy;

- by completing, signing and dating another proxy card and returning it by mail in time to be received before Halcón s special meeting or GeoResources special meeting, as applicable, or by submitting a later dated proxy by the Internet or telephone in which case your later-submitted proxy will be recorded and your earlier proxy revoked; or

- by attending the Halcón special meeting or the GeoResources special meeting, as applicable, and voting in person. Simply attending Halcón s special meeting or GeoResources special meeting without voting will not revoke your proxy or change your vote.

If your shares of Halcón common stock or GeoResources common stock are held in an account at a broker or other nominee and you desire to change your vote or vote in person, you should contact your broker or other nominee for instructions on how to do so.

Q: What should I do if I receive more than one set of voting materials for Halcón s special meeting or GeoResources meeting?

A: You may receive more than one set of voting materials for Halcón s special meeting or GeoResources special meeting, including multiple copies of this joint proxy statement/prospectus and multiple proxy cards

or voting instruction cards. For example, if you hold your shares of Halcón common stock or GeoResources common stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares of Halcón common stock or GeoResources common stock. If you are a holder of record and your shares of Halcón common stock or GeoResources common stock are registered in more than one name, you may receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive or if available, please submit your proxy by telephone or over the Internet.

Q: What happens if I am a stockholder of both Halcón and GeoResources?

A: You will receive separate proxy cards for each company and must complete, sign and date each proxy card and return each proxy card in the appropriate preaddressed postage-paid envelope or, if available, by submitting a proxy by one of the other methods specified in your proxy card or voting instruction card for each company.

Q: Who can I call with questions about the stockholders meetings, the merger and the other matters to be voted upon?

A: If you have any questions about these matters or how to submit your proxy or voting instruction card, or if you need additional copies of this document or the enclosed proxy card or voting instruction card, you should contact:

if you are a Halcón stockholder:
Halcón Resources Corporation

1000 Louisiana, Suite 6700

Houston, Texas 77002

(832) 538-0300

Attention: Investor Relations

if you are a GeoResources stockholder:
GeoResources, Inc.

110 Cypress Station Drive, Suite 220

Houston, Texas 77090

(281) 537-9920

Attention: Investor Relations

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus, including information included or incorporated by reference in this joint proxy statement/prospectus, contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, intentions, future performance and business of each of Halcón and GeoResources that are not historical facts and are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of the management of the companies and on the information currently available to such management. Forward-looking statements include information concerning possible or assumed future results of Halcón, GeoResources and the combined company and may be preceded by, followed by, or otherwise include the words may, expect, estimate, project, plan, believe, achievable, anticipate, will, continue, potential, should, could or similar expressions. These statements occur in, among other places:

- Questions and Answers About the Merger;
- Summary Selected Consolidated Historical Financial Data of Halcón; Selected Consolidated Historical Financial Data of GeoResources; Selected Unaudited Pro Forma Condensed Combined Financial Information; Summary Pro Forma Combined Oil and Natural Gas Reserve and Production Data; Comparative Per Share Information; and Comparative Per Share Market Price and Dividend Information;
- Risk Factors;
- The Merger Background of the Merger; Recommendation of Halcón s Board of Directors and Reasons for the Merger; and Recommendation of GeoResources Board of Directors and Reasons for the Merger;
- The Merger Opinion of Barclays to the Halcón Board of Directors; and Opinion of Wells Fargo Securities to the GeoResources Board of Directors;
- The Merger Projected Financial Information;
- Unaudited Pro Forma Condensed Combined Financial Information; and
- Statements contained elsewhere in this document concerning Halcón s and GeoResources plans for the combined company s growth and future operations or financial position.

These forward-looking statements involve certain risks and uncertainties. Actual results may differ materially from those contemplated in the forward-looking statements due to, among others, the factors discussed under Risk Factors beginning on page of this joint proxy statement/prospectus, as well as the following factors:

- the possibility that GeoResources may be unable to obtain stockholder approvals required for the merger;
- the possibility that problems may arise in successfully integrating the businesses of the two companies;
- the possibility that the merger may involve unexpected costs;

the possibility that the businesses may suffer as a result of uncertainty surrounding the merger;

the possibility that the domestic oil and gas exploration and production industry may be subject to future regulatory or legislative actions (including any additional taxes);

the volatility in commodity prices for oil and gas and in the supply of and demand for oil and natural gas;

the presence or recoverability of estimated oil and gas reserves of Halcón and GeoResources and the actual future production rates and associated costs;

the ability of Halcón and GeoResources to replace oil and gas reserves;

environmental risks of Halcón and GeoResources;

drilling and operating risks of Halcón and GeoResources;

- exploration and development risks of Halcón and GeoResources;
- competition;
- the ability of the combined company s management to execute its plans to meet its goals;
- the ability of the combined company to retain key members of its senior management and key employees;
- general economic conditions, whether internationally, nationally or in the regional and local market areas in which Halcón and GeoResources conduct their businesses, may be less favorable than expected, including the possibility that economic conditions in the United States will worsen and that capital markets are disrupted, which could adversely affect demand for oil and natural gas and make it difficult to access financial markets;
- social unrest, political instability, armed conflict, or acts of terrorism or sabotage in oil and natural gas producing regions, such as the Middle East or our markets; and
- other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact the business, operations or pricing of Halcón and GeoResources.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in reports filed with the SEC by Halcón and GeoResources. See Where You Can Find More Information beginning on page of this document.

Forward-looking statements speak only as of the date of this joint proxy statement/prospectus or the date of any document incorporated by reference in this document. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this joint proxy statement/prospectus and attributable to Halcón or GeoResources or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, neither Halcón nor GeoResources undertakes any obligation to update forward-looking statements to reflect events or circumstances after the date of this joint proxy statement/prospectus or to reflect the occurrence of unanticipated events.

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SUMMARY

The following summary highlights some of the information contained in this joint proxy statement/prospectus. This summary may not contain all of the information that is important to you. For a more complete description of the merger agreement, the merger and the other transactions contemplated thereby, Halcón and GeoResources encourage you to read carefully this entire joint proxy statement/prospectus, including the attached Annexes. In addition, Halcón and GeoResources encourage you to read the information incorporated by reference into this joint proxy statement/prospectus, which includes important business and financial information about Halcón and GeoResources that has been filed with the SEC. You may obtain the information incorporated by reference into this joint proxy statement/prospectus without charge by following the instructions in the section entitled Where You Can Find More Information. We have defined certain oil and gas industry terms used in this document in the Glossary of Oil and Gas Terms beginning on page .

The Companies

(Pages and)

Halcón Resources Corporation

1000 Louisiana, Suite 6700

Houston, Texas 77002

(832) 538-0300

Halcón is an independent energy company engaged in the acquisition, exploration, development and production of onshore oil and natural gas properties in the United States. Halcón s producing properties are principally located in Texas, Oklahoma and Louisiana. In February 2012, HALRES LLC, which we refer to as HALRES, a newly formed company led by Floyd C. Wilson, former Chairman and Chief Executive Officer of Petrohawk Energy Corporation, recapitalized Halcón with a $550.0 million investment, Mr. Wilson was appointed Chairman, President and Chief Executive Officer of Halcón and a new board of directors was appointed in connection with the recapitalization transaction. The objective of Halcón s new management team is to increase stockholder value by growing Halcón s oil and natural gas reserves, production and cash flow. Halcón intends to accomplish this objective by acquiring strategic acreage positions in liquids-rich regions, leveraging the latest available technologies and the expertise of Halcón s management team to explore and develop core properties, actively managing Halcón s portfolio of properties, and maintaining financial flexibility to fund potential acquisitions, exploration and development drilling and other corporate opportunities.

Leopard Sub I, Inc.

Leopard Sub II, LLC

1000 Louisiana, Suite 6700

Houston, Texas 77002

(832) 538-0300

Leopard Sub I, Inc., which we refer to as Merger Sub, is a Colorado corporation and a direct wholly owned subsidiary of Halcón and was formed solely for the purpose of consummating the merger. Leopard Sub II, LLC, which we refer to as the Second Merger Sub, is a Delaware limited liability company and a direct wholly owned subsidiary of Halcón and was formed solely for the purpose of consummating the subsequent merger. Neither Leopard Sub I, Inc. nor Leopard Sub II, LLC has carried on any activities to date, except for activities incidental to formation and activities undertaken in connection with the merger.

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GeoResources, Inc.

110 Cypress Station Drive, Suite 220

Houston, Texas 77090

(281) 537-9920

GeoResources, Inc. is an independent oil and gas company engaged in the acquisition and development of oil and natural gas reserves through an active and diversified program which includes the acquisition, drilling and development of undeveloped leases, purchases of reserves and exploration activities. GeoResources recent focus has been on expanding and developing its oil-weighted resource acreage in the Bakken trend of the Williston Basin and in the Austin Chalk and Eagle Ford trends in Texas.

The Merger

(Pages)

The Structure of the Merger

Halcón has agreed to acquire GeoResources under the terms and conditions set forth in the merger agreement, which we describe in this joint proxy statement/prospectus. Pursuant to the merger agreement, Merger Sub will merge with and into GeoResources, with GeoResources continuing as the surviving corporation and a wholly owned subsidiary of Halcón. We refer to this as the merger. Promptly following the completion of the merger, GeoResources as the surviving corporation from the merger will merge with and into the Second Merger Sub, with the Second Merger Sub surviving the second merger. We refer to this as the subsequent merger. The subsequent merger, pursuant to a binding commitment, will be effected shortly after the effective time of the merger, which we refer to as the effective time, without further approval, authorization or direction from or by any of the parties to the merger agreement. We have attached the merger agreement as Annex A to this joint proxy statement/prospectus. We encourage you to carefully read the merger agreement in its entirety. We currently expect that the merger and subsequent merger will be completed during the third quarter of 2012. However, we cannot predict the actual timing of the completion of the merger and subsequent merger.

Merger Consideration

The merger agreement provides that at the effective time of the merger each share of GeoResources common stock issued and outstanding immediately prior to the effective time will be converted into the right to receive cash of $20.00 per share and 1.932 shares of Halcón common stock. In the merger, Halcón will pay approximately $532 million in cash and issue approximately 51 million shares of common stock based on the outstanding shares of GeoResources common stock on , 2012. No assurance can be given that the current fair market value of Halcón common stock will be equivalent to the fair market value of Halcón common stock on the date that the merger consideration is received by a GeoResources stockholder or at any other time. The actual fair market value of the Halcón common stock received by GeoResources stockholders depends upon the fair market value of Halcón common stock upon receipt, which may be higher or lower than the market price of Halcón common stock on the date the merger was announced, on the date that this document is mailed to GeoResources stockholders, or on the date of the special meeting of GeoResources stockholders.

Treatment of GeoResources Stock Options, Warrants and Restricted Stock Units

Each option to purchase shares of GeoResources common stock granted under the GeoResources Amended and Restated 2004 Employees Stock Incentive Plan, which we refer to as the GeoResources Stock Plan, that is outstanding and unexercised immediately prior to the effective time of the merger will become fully vested immediately prior to the effective time of the merger. Each option has been conditionally exercised by the holder of the option in accordance with the GeoResources Stock Plan on a net cashless basis and will be converted into the right to receive the merger consideration.

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Each restricted stock unit which was issued pursuant to the GeoResources Stock Plan and is outstanding immediately prior to the effective time, and that has not then vested and been settled, shall vest and be settled by GeoResources through the issuance to each holder thereof of one share of GeoResources common stock in respect of each such restricted stock unit (subject to any applicable withholding). Each share of GeoResources common stock issued with respect to such former restricted stock unit shall be converted into the right to receive the merger consideration.

Each warrant to purchase shares of GeoResources common stock that is outstanding and unexercised immediately prior to the effective time of the merger, whether vested or unvested, will, in connection with the merger, be assumed by Halcón and be converted into a warrant to acquire Halcón common stock and cash. For more information about the treatment of the GeoResources warrants, see The Merger Treatment of GeoResources Warrants.

Ownership of Halcón After the Merger

Halcón will issue approximately 51 million shares of Halcón common stock to former GeoResources stockholders pursuant to the merger. Immediately following the completion of the merger, Halcón expects to have approximately 195 million shares of common stock outstanding. GeoResources stockholders are therefore expected to hold approximately 26% of the combined company s common stock outstanding immediately after the merger. Consequently, GeoResources stockholders, as a general matter, will have less influence over the management and policies of Halcón than they currently exercise over the management and policies of GeoResources.

Directors and Executive Officers of Halcón After the Merger

The directors and executive officers of Halcón prior to the merger will continue to serve as directors and executive officers of Halcón after the merger. Halcón has agreed to take all necessary action to cause, at the effective time of the merger, the number of directors on the Halcón board of directors to be increased from 10 to 11 and one individual, as mutually agreed by Halcón and GeoResources, to be elected to the Halcón board of directors as a Class A director in connection with the consummation of the merger. In the event that the merger is not completed, the foregoing director election will not take effect.

Effective Time and Completion of the Merger

Halcón and GeoResources hope to complete the merger as soon as reasonably practicable and expect the closing of the merger and the subsequent merger to occur in the third quarter of 2012. However, the merger is subject to regulatory clearances and the satisfaction or waiver of other conditions, and it is possible that factors outside the control of Halcón and GeoResources could result in the merger being completed at an earlier time, a later time or not at all. If the merger has not been completed on or before December 31, 2012, either Halcón or GeoResources may terminate the merger agreement unless the failure to complete the merger by that date is due to the failure of the party seeking to terminate the merger agreement to fulfill any material obligations under the merger agreement or a material breach of the merger agreement by such party.

Completion of the Merger is Subject to Certain Conditions

A number of conditions must be satisfied or waived, where legally permissible, before the merger can be consummated. These include, among others:

the approval by Halcón stockholders of the issuance of the shares of Halcón common stock pursuant to the merger agreement;

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- the approval and adoption of the merger agreement by GeoResources stockholders;
- the effectiveness of the Form S-4 registration statement, of which this joint proxy statement/prospectus is a part, and the absence of a stop order suspending the effectiveness of the Form S-4 registration statement or proceedings for such purpose pending before or threatened by the SEC;
- the approval for listing on the NYSE of the shares of Halcón common stock to be issued pursuant to the merger agreement, subject to official notice of issuance;
- the receipt by each of Halcón and GeoResources of an opinion from its outside counsel to the effect that for federal income tax purposes the merger and the subsequent merger, on a combined basis, will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and that each of Halcón and GeoResources will be a party to such reorganization within the meaning of Section 368(b) of the Internal Revenue Code; and
- the accuracy of the representations and warranties of Halcón and GeoResources in the merger agreement, subject to certain materiality thresholds;
- the performance in all material respects by each of Halcón and GeoResources of its respective covenants required to be performed by it under the merger agreement at or prior to the closing date;
- receipt of certificates by executive officers of each of Halcón and GeoResources to the effect that the conditions described in the preceding two bullet points have been satisfied; and
- there not having occurred a material adverse effect on Halcón or GeoResources since the date of the merger agreement, the effects of which are continuing.

Neither Halcón nor GeoResources can give any assurance as to when or if all of the conditions to the consummation of the merger will be satisfied or waived or that the merger will occur.

Termination of the Merger Agreement; Fees Payable

In general, the merger agreement may be terminated at any time prior to the effective time of the merger in the following ways, subject to certain exceptions discussed in The Merger Agreement Termination of the Merger Agreement :

- by mutual written agreement of Halcón and GeoResources;
- by either Halcón or GeoResources:
  - if the merger is not completed on or before December 31, 2012, unless the failure of the closing to occur by such date is due to the failure of the party seeking to terminate the merger agreement to fulfill any material obligation under the merger agreement or a material breach of the merger agreement by such party;

if any court or other governmental entity shall have issued a statute, rule, order, decree or regulation or taken any other action permanently restraining, enjoining or otherwise prohibiting the consummation of the merger or making the merger illegal;

if the GeoResources stockholders fail to approve and adopt the merger agreement by the requisite vote;

if there has been a material breach of any of the representations, warranties or covenants set forth in the merger agreement on the part of any of the other parties, which breach has not been cured prior the earlier of 30 days following receipt by the breaching party of written notice of such breach from the terminating party or December 31, 2012 (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement); or

if the Halcón stockholders fail to approve the issuance of Halcón common stock to be issued in the merger;

by Halcón if, prior to obtaining the required vote of the GeoResources stockholders to approve and adopt the merger agreement, (i) GeoResources or its board of directors has entered into or recommended, or publicly announced its intention to enter into or recommend, any agreement related to an acquisition proposal or approved or recommended any acquisition proposal, (ii) the board of directors makes an adverse recommendation change, or (iii) a competing tender offer has commenced that constitutes an acquisition proposal unless GeoResources board of directors recommends rejection of such proposal;

by GeoResources if, prior to obtaining the required vote of the GeoResources stockholders, GeoResources or its board of directors makes an adverse recommendation change and has authorized GeoResources to enter into an agreement with respect to a superior proposal (and GeoResources pays the termination fee to Halcón); or

the other party has undergone a material adverse effect at any time prior to completion of the merger.

For more information regarding the rights of Halcón and GeoResources to terminate the merger agreement, see The Merger Agreement Termination of the Merger Agreement General beginning on page .

Except for the termination fee set forth in the merger agreement and as described below, all costs and expenses incurred in connection with the merger agreement and the transactions contemplated therein shall be paid by the party incurring such costs or expenses. Under the merger agreement, GeoResources may be required to pay to Halcón a termination fee of approximately $27.8 million if the merger agreement is terminated under certain circumstances.

In addition, in the event of a termination resulting from a breach of a party s representations and warranties or covenants in the merger agreement, or if a party s stockholders fail to approve the transactions contemplated by the merger agreement, such party must reimburse the other party for its fees and expenses incurred in connection with the merger agreement in an amount not to exceed $10 million.

For more information regarding termination fees, see The Merger Agreement Termination of the Merger Agreement Termination Fees beginning on page .

We May Amend the Terms of the Merger and Waive Rights Under the Merger Agreement

Subject to compliance with applicable law, Halcón and GeoResources may amend the merger agreement at any time before or after approval and adoption of the merger agreement by GeoResources stockholders. However, after such approval and adoption there may not be, without further approval of GeoResources stockholders, any amendment of the merger agreement that alters or changes, in a way that adversely affects the holders of any shares of GeoResources capital stock or alters or changes the merger consideration to be received by the GeoResources stockholders in the merger.

At any time prior to the effective time of the merger, Halcón and GeoResources may, to the extent legally allowed:

extend the time for the performance of any of the obligations or other acts of the other parties under the merger agreement;

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- waive any inaccuracies in the other parties representations and warranties; and

- waive the other parties compliance with any of its agreements or conditions contained in the merger agreement.

Any such waiver or extension is subject to the certain conditions. See The Merger Agreement Extension, Waiver and Amendment of the Merger Agreement.

Regulatory Filings and Approvals Required to Complete the Merger

We are not aware of any material governmental or regulatory approvals required for the completion of the merger and compliance with the applicable corporate law of the States of Colorado and Delaware.

The Special Meetings and Voting

(Pages)

Halcón Special Meeting of Stockholders

The special meeting of the stockholders of Halcón will be for the following purposes:

- to consider and vote on the proposal to approve the issuance of shares of Halcón common stock pursuant to the merger agreement;

- to consider and vote on the proposal to elect, conditioned upon closing of the merger, one nominee to the Halcón board of directors to serve as a Class A director until his successor is duly elected or until his earlier death, resignation or removal; and

- to consider and vote on the proposal to authorize the Halcón board of directors, in its discretion, to adjourn the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement or to elect one additional Class A director to Halcón s board of directors at the time of the special meeting.

The Halcón board of directors has fixed the close of business on , 2012 as the record date for determining the holders of shares of Halcón common stock entitled to receive notice of and to vote at the Halcón special meeting and any adjournments or postponements thereof. Each holder of shares of Halcón common stock outstanding on the record date will be entitled to one vote for each share held of record upon each matter properly submitted at the Halcón special meeting and at any adjournment or postponement thereof. In order for Halcón to satisfy its quorum requirements, the holders of at least a majority of the total number of outstanding shares of Halcón common stock entitled to vote at the meeting must be present.

The issuance of shares of Halcón common stock in the merger requires the affirmative vote of a majority of the votes cast in person or by proxy and entitled to vote at the Halcón special meeting. The election of the Class A director requires the affirmative vote of a plurality of votes cast in person or by proxy and entitled to vote at the Halcón special meeting. Approval of the proposal to authorize Halcón s board of directors to adjourn the special meeting requires the affirmative vote of a majority of the stock present in person or by proxy and entitled to vote at the Halcón special meeting.

GeoResources Special Meeting of Stockholders

The special meeting of the stockholders of GeoResources will be for the following purposes:

- to consider and vote on the proposal to approve and adopt the merger agreement, as it may be amended from time to time, and the transactions contemplated by the merger agreement;

to consider and vote on the proposal to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to GeoResources named executive officers that is based on or otherwise relates to the merger; and to consider and vote on the proposal to adjourn the GeoResources special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve the foregoing proposal regarding the merger.

The GeoResources board of directors has fixed the close of business on , 2012 as the record date for determining the holders of shares of GeoResources common stock entitled to receive notice of and to vote at the GeoResources special meeting and any adjournments or postponements thereof. Each holder of shares of GeoResources common stock outstanding on the record date will be entitled to one vote for each share held of record upon each matter properly submitted at the GeoResources special meeting and at any adjournment or postponement thereof. In order for GeoResources to satisfy its quorum requirements, the holders of at least a majority of the total number of outstanding shares of GeoResources common stock entitled to vote at the meeting must be present.

The approval of the merger agreement requires the affirmative vote of the holders of at least a majority of the shares of GeoResources common stock issued and outstanding and entitled to vote at the GeoResources special meeting. The affirmative vote of a majority of the votes cast by holders of GeoResources common stock at the GeoResources special meeting is required to approve (i) on a nonbinding, advisory basis, the compensation that may be paid or become payable to GeoResources named executive officers that is based on or otherwise relates to the merger and (ii) the proposal to adjourn the GeoResources special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the GeoResources special meeting to approve and adopt the merger agreement.

Voting Agreements

GeoResources has entered into a voting agreement with HALRES, which owns approximately 51% of the outstanding shares of Halcón common stock as of the record date of the Halcón special meeting of stockholders. The HALRES voting agreement provides, among other things, that HALRES will vote in favor of the transactions contemplated by the merger agreement, including the issuance of shares of Halcón common stock in connection with the merger and the election of one additional Class A director to the Halcón board of directors. HALRES also agreed not to sell, transfer or otherwise dispose of its shares of Halcón common stock, subject to certain exceptions provided in the voting agreement.

Certain of GeoResources officers and directors (and certain of their affiliates) who own in the aggregate approximately 17% of the outstanding shares of GeoResources common stock as of the record date of the GeoResources special meeting of stockholders entered into a voting agreement with Halcón and Merger Sub, in which each stockholder agreed to vote in favor of the merger, against any acquisition proposal other than contemplated by the merger agreement, and against any proposal, action or transaction that would impede, frustrate, prevent or nullify the merger or the other transactions contemplated by the merger agreement. Each stockholder also agreed not to sell, transfer or otherwise dispose of that stockholder s shares of GeoResources common stock, subject to certain exceptions provided in the voting agreement. Additionally, each stockholder agreed to similar non-solicitation provisions as those applicable to GeoResources under the merger agreement.

For more information regarding these voting arrangements, see Voting Agreements on page .

Matters to be Considered in Deciding How to Vote

(Pages)

Recommendation of the Halcón Board of Directors and Its Reasons for the Merger

After careful consideration, the Halcón board of directors approved the merger agreement on April 24, 2012. **The Halcón board of directors recommends that Halcón stockholders vote FOR the proposal to approve the issuance of shares of Halcón common stock pursuant to the merger agreement, FOR the**

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proposal to elect, conditioned upon closing of the merger, one additional Class A director to the Halcón board of directors, and FOR the proposal to authorize Halcón s board of directors to adjourn the special meeting.

For the factors considered by the Halcón board of directors in reaching its decision to approve the merger agreement as well as the Halcón board of directors reasons for, and certain risks related to, the merger, see The Merger Recommendation of Halcón s Board of Directors and Reasons for the Merger beginning on page .

Recommendation of the GeoResources Board of Directors and Its Reasons for the Merger

After careful consideration, on April 23, 2012, the GeoResources board of directors unanimously (i) determined that the merger is fair to and in the best interests of GeoResources and its stockholders, (ii) declared the merger agreement and the transactions contemplated thereby advisable, and (iii) approved the merger and the merger agreement (and the forms of exhibits thereto) and the transactions contemplated thereby. **The GeoResources board of directors unanimously recommends that GeoResources stockholders vote FOR the proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, FOR the proposal to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to GeoResources named executive officers that is based on or otherwise relates to the merger, and FOR the adjournment proposal.**

For the factors considered by the GeoResources board of directors in reaching its decision to approve the merger agreement and approve the consummation of the transactions contemplated by the merger agreement, including the merger, as well as the GeoResources board of directors reasons for, and certain risks related to, the merger, see The Merger Recommendation of GeoResources Board of Directors and Reasons for the Merger beginning on page .

Fairness Opinion of Barclays to the Halcón Board of Directors

Barclays Capital Inc., or Barclays, rendered its opinion to Halcón s board of directors that, as of April 24, 2012, based upon and subject to the qualifications, limitations and assumptions stated in its opinion, the merger consideration to be paid by Halcón in the merger was fair, from a financial point of view, to Halcón.

The full text of the written opinion of Barclays, dated April 24, 2012, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this joint proxy statement/prospectus. Barclays provided its opinion for the information and assistance of Halcón s board of directors in connection with its consideration of the merger. The Barclays opinion is not a recommendation as to how any holder of Halcón s common stock should vote with respect to the issuance of Halcón common stock in the merger or any other matter.

Pursuant to a letter agreement dated February 7, 2012, Halcón engaged Barclays to act as its financial advisor in connection with the contemplated transaction. As compensation for its services in connection with the merger, Halcón paid Barclays $1.0 million upon the delivery of Barclays fairness opinion. Additional compensation of $6.0 million will be payable on completion of the merger, against which the amount paid for the opinion will be credited. In addition, Halcón has agreed to reimburse Barclays for its expenses, including attorneys fees and disbursements, and to indemnify Barclays and related persons against various liabilities.

Fairness Opinion of Wells Fargo Securities to the GeoResources Board of Directors

On April 23, 2012, at a meeting of the GeoResources board of directors held to consider the merger agreement, Wells Fargo Securities, LLC, referred to as Wells Fargo Securities, delivered an opinion to the board of directors of GeoResources, which was confirmed by delivery of a written opinion, dated April 24, 2012, that, as of the date of the written opinion, and based on and subject to various assumptions made, procedures followed, matters considered and limitations on the review undertaken by Wells Fargo Securities in connection with the opinion, the experience of its investment bankers and other factors it deemed relevant, the merger consideration of (1) $20.00 cash, without interest, and (2) 1.932 shares of Halcón common stock per share to be received by the holders of GeoResources common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders (other than Halcón and its affiliates). The full text of the written opinion of Wells Fargo Securities, dated April 24, 2012, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex E to this joint proxy statement/prospectus. Wells Fargo Securities provided its opinion for the information and use of the board of directors of GeoResources in connection with its evaluation of the merger. The Wells Fargo Securities opinion does not constitute a recommendation as to how any holder of shares of GeoResources common stock should vote with respect to the merger or any other matter.

Pursuant to an engagement letter between GeoResources and Wells Fargo Securities, GeoResources engaged Wells Fargo Securities to act as its financial advisor and render a fairness opinion in connection with the merger and agreed to pay Wells Fargo Securities an aggregate fee for such services of approximately $5.5 million, $2.5 million of which was payable upon delivery of Wells Fargo Securities opinion and approximately $3.0 million of which will be payable upon consummation of the merger. In addition, GeoResources has agreed to reimburse Wells Fargo Securities for its expenses, including attorneys fees and disbursements, and to indemnify Wells Fargo Securities and related persons against various liabilities. We encourage you to read the opinion, which is attached to this joint proxy statement/prospectus as Annex E, in its entirety and the description thereof in the section titled The Merger Opinion of Wells Fargo Securities to the GeoResources Board of Directors beginning on page .

The Merger Generally Will Be Tax-Free to U.S. Holders of GeoResources Common Stock to the Extent They Receive Halcón Common Stock

Based on the opinions of Jones & Keller P.C., outside counsel to GeoResources, and Thompson & Knight LLP, outside counsel to Halcón, we expect that the material U.S. federal income tax consequences of the merger and the subsequent merger, on a combined basis, to GeoResources stockholders that are U.S. persons will be as follows:

- You generally will recognize (i.e., take into account for tax purposes) gain (but not loss) equal to the lesser of (1) the excess of the sum of the cash (including cash instead of a fractional share of Halcón common stock) and the fair market value of the Halcón common stock received over your adjusted tax basis in the GeoResources stock surrendered, or (2) the amount of cash received.

- Your holding period for the Halcón common stock received in the merger generally will include your holding period for the GeoResources common stock exchanged in the merger.

- Your aggregate tax basis of the shares of Halcón common stock received in exchange for your GeoResources common stock pursuant to the merger will be the same as the aggregate tax basis of your GeoResources common stock surrendered in the merger decreased by the amount of cash received in the merger and increased by the amount of gain recognized in the merger.

Please refer to Material U.S. Federal Income Tax Consequences beginning on page of this document for a more complete discussion of the U.S. federal income tax consequences of the merger. Determining the actual tax consequences of the merger to you may be complex and will depend on your specific situation. You should consult your tax advisor for a full understanding of the merger s tax consequences for you.

Interests of GeoResources Directors and Executive Officers in the Merger

In considering the recommendation of GeoResources board of directors with respect to the merger, GeoResources stockholders should be aware that the executive officers and directors of GeoResources have certain interests in the merger that may be different from, or in addition to, the interests of GeoResources stockholders. GeoResources board of directors was aware of these interests and considered them, among other matters, when adopting a resolution to approve and adopt the merger agreement and recommending that GeoResources stockholders vote to approve and adopt the merger agreement. Upon consummation of the merger, and assuming each executive officer experiences a termination immediately thereafter that entitles him to the highest amount of additional merger-related compensation payable, GeoResources non-employee directors and executive officers will receive accelerated equity awards and change-in-control payments with an aggregate estimated value of approximately $10.8 million. See The Merger Interests of GeoResources Directors and Executive Officers in the Merger.

Comparative Per Share Market Price and Dividend Information

The following table shows the closing sale prices of Halcón and GeoResources common stock as reported on the New York Stock Exchange, or NYSE, and the NASDAQ Global Select Market, respectively, on April 24, 2012, the last business day preceding the press release announcing the merger agreement, and on , 2012, the last practicable day before the distribution of this joint proxy statement/prospectus. This table also shows the merger consideration equivalent proposed for each share of GeoResources common stock, which we calculated by multiplying the closing price of Halcón common stock on those dates by the exchange ratio of 1.932 and adding the cash consideration of $20.00.

	Closing Price per Share	
	April 24, 2012	, 2012
Halcón common stock	$ 9.30	
GeoResources common stock	$ 30.77	
GeoResources merger consideration equivalent	$ 37.97	

Because the 1.932 exchange ratio is fixed and will not be adjusted as a result of changes in the market price of Halcón common stock, the merger consideration equivalent will fluctuate with the market price of Halcón common stock. The merger agreement does not include a price-based termination right or provisions that would limit the impact of increases or decreases in the market price of Halcón common stock. You should obtain current market quotations for the shares of both companies from a newspaper, the Internet or your broker prior to voting on the merger agreement.

Neither Halcón nor GeoResources paid dividends on its common stock during the past three years and neither company has any current intention of doing so in the foreseeable future.

Appraisal Rights

GeoResources stockholders have the right to dissent from the proposed merger and, subject to certain conditions provided for in Article 113 of the CBCA, are entitled to receive payment of the fair value of their GeoResources common stock. GeoResources stockholders will be bound by the terms of the merger unless they dissent by complying with all of the requirements of the Colorado dissenters rights statutes. See The Merger Appraisal Rights beginning on page for a summary of dissenters rights available to GeoResources stockholders, which summary is not intended to be a complete statement of applicable Colorado law and is qualified in its entirety by reference to Article 113 of the CBCA, which is set forth in its entirety as Annex F to this joint proxy statement/prospectus.

Comparison of the Rights of Stockholders

As a result of the merger, the holders of GeoResources securities that receive shares of Halcón common stock will become stockholders of Halcón. Following the merger, these GeoResources stockholders will have different rights as stockholders of Halcón than as stockholders of GeoResources due to the different laws governing each company s jurisdiction of incorporation as well as provisions of the governing documents of Halcón and GeoResources. These differences are described in more detail under Comparison of Rights of Halcón Stockholders and GeoResources Stockholders beginning on page .

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Selected Consolidated Historical Financial Data of Halcón

Set forth below are selected data derived from Halcón s unaudited consolidated financial statements as of and for the quarters ended March 31, 2012 and 2011, and Halcón s audited consolidated financial statements for the years ended December 31, 2007 through 2011. This information should be read together with Halcón s consolidated financial statements and related notes included in Halcón s quarterly report on Form 10-Q for the quarter ended March 31, 2012 and Annual Report on Form 10-K for the year ended December 31, 2011, and the accompanying notes and management s discussion and analysis of operations and financial condition of Halcón contained in such reports, which reports are incorporated by reference in this joint proxy statement/prospectus. The historical consolidated financial data as of December 31, 2009, 2008 and 2007 and for the two years ended December 31, 2008 are derived from Halcón s audited financial statements that are not included or incorporated by reference herein.

	Quarter Ended March 31,		Year Ended December 31,				
	2012	2011	2011	2010	2009	2008	2007
	(In thousands, except per share data)						
Operating revenues:							
Oil sales	$ 22,997	$ 20,412	$ 82,968	$ 76,563	$ 66,281	$ 117,036	$ 55,000
Natural gas sales	1,668	2,892	10,673	20,265	20,818	47,884	17,830
Natural gas liquids sales	2,169	2,415	9,880	14,156	11,068	17,770	9,047
Other	36	51	168	157	217	382	488
Total operating revenue	26,870	25,770	103,689	111,141	98,384	183,072	82,365
Operating Expenses:							
Production:							
Lease operating	7,947	7,841	31,363	32,295	34,950	36,873	21,115
Taxes	1,570	1,411	5,740	6,063	5,320	10,480	4,869
Workovers	721	534	1,967	1,596	2,505	1,157	459
Depletion, depreciation and accretion	5,979	5,675	22,986	28,752	33,626	48,719	19,652
Impairment of oil and gas properties					47,613	269,886	
Restructuring costs	104		1,071				
General and administrative	20,334	4,547	20,763	17,909	18,846	22,868	12,880
Total operating expenses	36,655	20,008	83,890	86,615	142,860	389,983	58,975
Income (loss) from operations	(9,785)	5,762	19,799	24,526	(44,476)	(206,911)	23,390
Other Income (Expense):							
Interest expense and other, net	(12,997)	(6,502)	(17,879)	(22,307)	(18,948)	(37,510)	(19,767)
Net gain (loss) on derivative contracts	(4,945)	(14,250)	3,479	1,193	(11,306)	22,785	(12,725)
Income (Loss) Before Income Taxes	(27,727)	(14,990)	5,399	3,412	(74,730)	(221,636)	(9,102)
Income Tax Provision (Benefit)	5,595	(5,079)	6,802	995	(16,347)	(91,683)	(7,852)
Net income (loss)	(33,322)	(9,911)	(1,403)	2,417	(58,383)	(129,953)	(1,250)
Preferred dividend	(1,102)						
Net income (loss) available to common stockholders	$ (34,424)	$ (9,911)	$ (1,403)	$ 2,417	$ (58,383)	$ (129,953)	$ (1,250)

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	As of and for the Quarter Ended March 31, 2012	2011	As of and for the Year Ended December 31, 2011	2010	2009	2008	2007
	(In thousands, except per share data)						
Earnings (loss) per share:							
Basic(2)	$ (0.50)	$ (0.38)	$ (0.05)	$ 0.09	$ (2.26)	$ (5.40)	$ (0.09)
Diluted(2)	(0.50)	(0.38)	(0.05)	0.09	(2.26)	(5.40)	(0.09)
Weighted average shares outstanding:							
Basic(2)	68,816	26,120	26,258	26,142	25,867	24,078	14,029
Diluted(2)	68,816	26,120	26,258	26,142	25,867	24,078	14,029
Statement of Cash Flow Data							
Cash provided by (used in)							
Operating activities	$ (9,199)	$ 4,204	$ 29,835	$ 37,875	$ 32,372	$ 74,454	$ 17,042
Investing activities	(28,378)	(5,366)	(25,376)	14,970	(23,921)	(82,568)	(241,192)
Financing activities	723,311	1,167	(4,447)	(52,937)	(8,486)	1,405	224,302
Other Data							
Capital expenditures	$ 23,986	$ 5,620	$ 25,214	$ 33,535	$ 29,871	$ 84,723	$ 344,795
Balance Sheet Data							
Total assets	$ 969,412	$ 273,902	$ 267,802	$ 265,001	$ 311,162	$ 403,964	$ 580,242
Long-term debt(1)	235,475	205,376	202,000	197,092	246,167	250,696	335,747
Stockholders equity (deficit)	672,850	(4,989)	5,948	4,167	(526)	57,840	98,698

(1) Includes current portion of long-term debt.

(2) Share and per share figures for all historical periods presented have been adjusted to reflect the one-for-three reverse stock split, which was effective February 10, 2012.

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Selected Consolidated Historical Financial Data of GeoResources

Set forth below are selected data derived from GeoResources unaudited consolidated financial statements as of and for the quarters ended March 31, 2012 and 2011, and GeoResources audited consolidated financial statements for the years ended December 31, 2007 through 2011. This information should be read together with GeoResources consolidated financial statements and related notes included in GeoResources quarterly report on Form 10-Q for the quarter ended March 31, 2012 and Annual Report on Form 10-K, as amended, for the year ended December 31, 2011, and the accompanying notes and management s discussion and analysis of operations and financial condition of GeoResources contained in such reports, which reports are incorporated by reference in this joint proxy statement/prospectus. The historical consolidated financial data as of December 31, 2009, 2008 and 2007 and for the two years ended December 31, 2008 are derived from GeoResources audited financial statements that are not included or incorporated by reference herein.

	Quarter Ended March 31,		Year Ended December 31,				
	2012	2011	2011	2010	2009	2008	2007
	(In thousands, except per share data)						
Revenues and Other Operating Income:							
Oil and gas revenues	$ 42,564	$ 26,614	$ 130,608	$ 99,913	$ 71,618	$ 85,263	$ 36,518
Partnership management fees	101	111	507	550	1,007	1,725	969
Property operating income	1,805	676	3,562	1,865	1,710	1,430	1,251
Gain on sale of property and equipment	2	736	865	953	1,355	4,362	49
Partnership income	291	410	1,759	2,240	4,318	1,061	184
Interest and other	31	92	447	1,496	990	765	1,144
Total revenues and other operating income	44,794	28,639	137,748	107,017	80,998	94,606	40,115
Operating Expenses:							
Production:							
Lease operating	7,252	5,019	24,806	20,944	18,763	22,914	10,818
Taxes	2,822	1,621	8,028	6,589	4,193	7,517	2,880
Workovers	772	394	2,628	1,962	2,807	3,518	2,092
Exploration expense	279	232	989	849	1,406	2,592	153
General and administrative expense	4,647	2,600	13,875	9,474	8,500	7,168	6,513
Depreciation, depletion and amortization	9,774	5,580	27,659	24,686	22,409	16,007	7,507
Impairment of oil and gas properties			6,043	3,440	2,795	8,339	
Hedge ineffectiveness	66	2,202	569	(891)	137	(123)	287
(Gain)/Loss on derivative contracts				(2)	162	563	
Interest	409	586	1,909	4,712	4,984	4,820	1,916
Total expenses	26,021	18,234	86,506	71,763	66,156	73,315	32,166
Income Before Income Taxes	18,773	10,405	51,242	35,254	14,842	21,291	7,949
Income Tax Provision (Benefit)							
Current	(1,905)	157	(2,644)	8,861	412	866	1,472
Deferred	9,258	3,935	22,635	3,062	4,655	6,903	3,408
	7,353	4,092	19,991	11,923	5,067	7,769	4,880
Net income	$ 11,420	$ 6,313	$ 31,251	$ 23,331	$ 9,775	$ 13,522	$ 3,069
Less: Net loss attributable to noncontrolling interest			(87)				
Net income attributable to GeoResources, Inc.	$ 11,420	$ 6,313	$ 31,338	$ 23,331	$ 9,775	13,522	$ 3,069

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	As of and for the Quarter Ended March 31,		As of and for the Year Ended December 31,				
	2012	2011	2011	2010	2009	2008	2007
	(In thousands, except per share data)						
Earnings per share:							
Basic	$ 0.45	$ 0.26	$ 1.24	$ 1.18	$ 0.59	$ 0.87	$ 0.25
Diluted	$ 0.44	$ 0.26	$ 1.22	$ 1.16	$ 0.59	$ 0.86	$ 0.25
Weighted average shares outstanding:							
Basic	25,611	24,088	25,172	19,721	16,532	15,598	12,405
Diluted	26,073	24,678	25,599	20,142	16,559	15,751	12,405
Statement of Cash Flow Data							
Cash provided by (used in)							
Operating activities	$ 39,563	$ 14,266	$ 96,339	$ 59,531	$ 24,044	$ 42,338	$ 20,864
Investing activities	(117,563)	(23,906)	(110,852)	(80,956)	(87,405)	(28,988)	(109,926)
Financing activities	60,391	42,421	44,287	18,135	62,054	(23,813)	107,275
Other Data							
Capital expenditures	$ 117,565	$ 24,251	$ 111,294	$ 81,974	$ 89,396	$ 52,802	$ 111,780
Balance Sheet Data							
Total assets	$ 594,026	$ 418,582	$ 487,691	$ 359,690	$ 304,297	$ 243,534	$ 240,358
Long-term debt	60,000			87,000	69,000	40,000	96,000
Stockholders equity	379,139	330,863	368,311	199,502	174,677	140,995	68,032

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Selected Unaudited Pro Forma Condensed Combined Financial Information

The following table shows information about Halcón s financial condition and results of operations, including per share data, on a pro forma basis after giving effect to the merger. We refer to this information in this joint proxy statement/prospectus as pro forma financial information. The table sets forth the information as if the merger had become effective on March 31, 2012 (using currently available fair value information), with respect to balance sheet data, and January 1, 2011, with respect to statement of operations data. This unaudited pro forma financial information assumes that the merger will be accounted for using the acquisition method of accounting and represents a current estimate based on available information of the combined company s results of operations. The unaudited pro forma balance sheet data includes adjustments to record the assets and liabilities of GeoResources at their estimated fair values and is subject to further adjustment as additional information becomes available and as additional analyses are performed.

The merger agreement provides for Halcón to pay approximately $532 million in cash and issue approximately 51 million shares of common stock as consideration to GeoResources common stockholders. In addition, as a result of the merger Halcón will assume all outstanding GeoResources debt, which was approximately $60 million as of March 31, 2012. This table should be read together with, and is qualified in its entirety by, the historical financial statements, including the notes thereto, of Halcón and GeoResources incorporated by reference in this joint proxy statement/prospectus and the more detailed unaudited pro forma condensed combined financial information, including the notes thereto, appearing under Unaudited Pro Forma Condensed Combined Financial Information beginning on page .

The unaudited pro forma financial information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of possible revenue enhancements, expense efficiencies and asset dispositions, among other factors that may result as a consequence of the merger and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during these periods.

	As of and for the Quarter Ended March 31, 2012	For the Year Ended December 31, 2011
	(In thousands, except per share amounts)	
Pro Forma Statement of Operations Data:		
Operating revenues	$ 71,691	$ 242,986
Net income (loss) available to common stockholders	$ (30,769)	$ 9,124
Net (loss) income per common share:		
Basic	$ (0.26)	$ 0.12
Diluted	$ (0.26)	$ 0.12
Pro Forma Balance Sheet Data:		
Total assets	$ 2,093,304	
Long-term debt	$ 535,475	
Stockholders equity	$ 1,100,142	

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Summary Pro Forma Combined Oil and Natural Gas Reserve and Production Data

The following table sets forth summary pro forma information with respect to Halcón s and GeoResources combined estimated oil, natural gas and natural gas liquids, or NGLs, reserves as of December 31, 2011. This pro forma information gives effect to the merger as if it occurred on December 31, 2011. The Halcón and GeoResources reserve data presented below was derived from each company s Annual Report on Form 10-K for the year ended December 31, 2011, which are incorporated by reference in this joint proxy statement/prospectus. Future exploration, exploitation and development expenditures, as well as future commodity prices and service costs, will affect the reserve volumes attributable to the acquired properties. The reserve estimates shown below were determined using a 12-month average price for oil, NGLs and natural gas for the year ended December 31, 2011.

	Estimated Quantities of Reserves as of December 31, 2011		
	Halcón Historical	GeoResources Historical	Halcón Pro Forma Combined
Estimated Proved Reserves:			
Oil (MBbls)	12,371	19,693	32,064
NGL (MBbls)	2,010	1,015	3,025
Natural Gas (MMcf)	40,054	51,215	91,269
Total (Mboe)(1)	21,057	29,244	50,301
Estimated Proved Developed Reserves:			
Oil (MBbls)	8,643	13,906	22,549
NGL (MBbls)	1,238	733	1,971
Natural Gas (MMcf)	20,997	34,118	55,115
Total (Mboe)(1)	13,381	20,325	33,706
Estimated Proved Undeveloped Reserves:			
Oil (MBbls)	3,728	5,787	9,515
NGL (MBbls)	772	282	1,054
Natural Gas (MMcf)	19,057	17,097	36,154
Total (Mboe)(1)	7,676	8,919	16,595

(1) Assumes a ratio of 6 Mcf of natural gas per barrel of oil.

The following table sets forth summary pro forma information with respect to Halcón s and GeoResources combined oil and natural gas production for the year ended December 31, 2011. This pro forma information gives effect to the merger as if it occurred on January 1, 2011. The Halcón and GeoResources oil and natural gas production data presented below was derived from each company s Annual Report on Form 10-K for the year ended December 31, 2011, which are incorporated by reference in this joint proxy statement/prospectus.

	Production for the Year Ended December 31, 2011		
	Halcón Historical	GeoResources Historical	Halcón Pro Forma Combined
Oil (MBbls)	884	1,222	2,106
NGL (MBbls)	176	43	219
Natural Gas (MMcf)	2,662	3,948	6,610
Total (Mboe)(1)	1,504	1,924	3,428

(1) Assumes a ratio of 6 Mcf of natural gas per barrel of oil.

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Comparative Per Share Information

The following table sets forth certain historical net income (loss) per share of Halcón and GeoResources and per share book value information on an unaudited pro forma combined basis after giving effect to the merger under the acquisition method of accounting.

The unaudited pro forma condensed combined per share information does not purport to represent what the results of operations or financial position of Halcón, GeoResources or the combined company would actually have been had the merger occurred at the beginning of the period shown or to project Halcón s, GeoResources or the combined company s results of operations or financial position for any future period or date. Such pro forma information is derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial information and accompanying notes included in this joint proxy statement/prospectus as described under Unaudited Pro Forma Condensed Combined Financial Information beginning on page .

The historical per share information is derived from, and should be read in conjunction with, the financial statements for each of Halcón and GeoResources, which are contained in the reports and other information that have been filed with the SEC and incorporated by reference in this joint proxy statement/prospectus. See Where You Can Find More Information beginning on page . Neither Halcón nor GeoResources declared any cash dividends related to their respective common stock during the periods presented.

	Quarter Ended March 31, 2012	Year Ended December 31, 2011
Halcón Historical Per Common Share Data:		
Basic	$ (0.50)	$ (0.05)
Diluted	$ (0.50)	$ (0.05)
Book value(a)	$ 9.78	$ 0.23
GeoResources Historical Per Common Share Data:		
Basic	$ 0.45	$ 1.24
Diluted	$ 0.44	$ 1.22
Book value(a)	$ 14.54	$ 14.39
Pro Forma Combined Per Common Share Data:		
Basic(b)	$ (0.26)	$ 0.12
Diluted(b)	$ (0.26)	$ 0.12
Book value(c)	$ 9.15	NA

(a) Computed by dividing stockholders equity (excluding noncontrolling interests) by the weighted average number of shares of common stock at the end of such period plus the dilutive effect of interests in securities (such as the outstanding options, warrants, and convertible preferred stock).
(b) Based on the pro forma net income which gives effect to the merger under the acquisition method of accounting.
(c) Computed by dividing stockholders equity by the number of weighted average outstanding shares of Halcón common stock at the end of such period, adjusted to include the estimated number of shares of Halcón common stock to be issued in the merger plus the dilutive effect of interests in securities (such as the outstanding options and warrants) at the end of such period.

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Comparative Per Share Market Price and Dividend Information

Halcón common stock is listed for trading on the New York Stock Exchange under the symbol HK. GeoResources common stock is listed for trading on the NASDAQ Global Market under the symbol GEOI. The following table sets forth, for the periods indicated, the high and low sale prices per share of Halcón and GeoResources common stock on the NYSE and the NASDAQ Global Select Market, respectively. The high and low sale prices for Halcón common stock during periods prior to February 10, 2012 have been adjusted to reflect the one-for-three reverse split of Halcón s outstanding common stock effective on February 10, 2012.

For current price information, you should consult publicly available sources. GeoResources has neither declared nor paid any cash dividends on its common stock. Halcón has neither declared nor paid any cash dividends on its common stock, and does not anticipate declaring any dividends on its common stock in the foreseeable future.

Halcón Common Stock

	High	Low
Quarter Ended		
2010		
March 31	$ 6.99	$ 4.08
June 30	7.50	4.20
September 30	6.66	4.08
December 31	5.85	3.99
2011		
March 31	$ 7.74	$ 4.59
June 30	6.66	3.48
September 30	3.90	1.80
December 31	9.72	1.95
2012		
March 31	$ 13.30	$ 8.19
June 30 (through , 2012)		

GeoResources Common Stock

	High	Low
Quarter Ended		
2010		
March 31	$ 16.25	$ 11.29
June 30	17.87	13.32
September 30	16.43	13.01
December 31	23.44	15.83
2011		
March 31	$ 32.94	$ 22.51
June 30	32.37	20.02
September 30	27.98	17.61
December 31	30.95	14.56
2012		
March 31	$ 35.97	$ 28.20
June 30 (through , 2012)		

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The following table sets forth the closing prices per share of Halcón and GeoResources common stock, as well as the equivalent value per share of GeoResources common stock price assuming the proposed merger consideration, on April 24, 2012, the last full trading day prior to the public announcement of the merger, and , 2012 the last full trading day that this information could practicably be calculated prior to the date of this joint proxy statement/prospectus.

	Halcón Common Stock	GeoResources Common Stock	Equivalent value per share of GeoResources Common Stock
April 24, 2012	$ 9.30	$ 30.77	$ 37.97
, 2012			

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RISK FACTORS

In addition to the other information contained or incorporated by reference into this joint proxy statement/prospectus, including the matters addressed in Cautionary Statement Concerning Forward-Looking Statements, you should carefully consider the following risk factors before deciding how to vote. You should also read and consider the risk factors associated with each of the businesses of Halcón and GeoResources because these risk factors may affect the operations and financial results of the combined company. These risk factors may be found under Part I, Item 1A, Risk Factors in each company s Annual Report on Form 10-K for the year ended December 31, 2011 and Part II, Item 1A Risk Factors in each company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, each of which is on file with the SEC and is incorporated by reference into this joint proxy statement/prospectus.

Risks Relating to the Merger

Because a portion of the merger consideration to be received by GeoResources stockholders is a fixed amount of Halcón common stock and the market price of shares of Halcón common stock will fluctuate, GeoResources stockholders cannot be sure of the aggregate value of the merger consideration they will receive.

Upon the effective time of the merger, each share of GeoResources common stock will be converted into the right to receive merger consideration consisting of $20.00 in cash and 1.932 shares of Halcón common stock pursuant to the terms of the merger agreement. Because the 1.932 exchange ratio is fixed and will not be adjusted as a result of changes in the market price of Halcón common stock, the value of the merger consideration you will receive will fluctuate with the market price of Halcón common stock. The merger agreement does not include a price-based termination right or provisions that would limit the impact of increases or decreases in the market price of Halcón common stock or adjust the portion of the merger consideration to be paid in Halcón common stock as a result of any change in the market price of shares of Halcón common stock between the date of this joint proxy statement/prospectus and the date that you receive shares of Halcón common stock in exchange for your shares of GeoResources common stock. The market price of Halcón common stock will likely be different, and may be lower, on the date you receive your shares of Halcón common stock than the market price of shares of Halcón common stock as of the date of this joint proxy statement/prospectus.

During the 12-month period ended on April 30, 2012, shares of Halcón common stock traded in a range from a low of $1.80 to a high of $13.30 and ended that period at $10.89. See Price Range of Common Stock and Dividends beginning on page for more detailed share price information. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in oil and natural gas prices, changes in our respective businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond our control. If the market price of Halcón common stock declines after you vote, you may receive less value than you expected when you voted. Neither Halcón nor GeoResources is permitted to terminate the merger agreement, adjust the merger consideration or resolicit the vote of GeoResources stockholders because of changes in the market price of their respective common stock.

Directors and executive officers of GeoResources have certain interests in the merger that differ from, or are in addition to, those of GeoResources stockholders generally.

The executive officers of GeoResources who negotiated the terms of the merger agreement and the members of GeoResources board of directors who approved the merger agreement may have certain interests in the merger that may be different from, or in addition to, the interests of GeoResources stockholders generally. These interests include the following:

- The consummation of the merger will constitute a change of control, resulting in change in control payments to all executive officers of GeoResources under the GeoResources Change in Control Plan and accelerated vesting of stock options and restricted stock unit awards under the GeoResources, Inc. Amended and Restated 2004 Employees Stock Incentive Plan;

Upon separation from service following a change in control of GeoResources, all executive officers are entitled to reimbursement for COBRA premiums for 12 months;

After the effective time of the merger, the organizational documents of the surviving company in the merger will contain provisions with respect to exculpation, indemnification and advancement of expenses no less favorable than the provisions set forth in the articles of incorporation and bylaws of GeoResources as of the date of the merger agreement to individuals who at any time from and after the date of the merger agreement and to and including the effective time were directors, officers and employees of GeoResources or any of its subsidiaries; and

All current and retired directors and officers of GeoResources will continue to be indemnified with respect to acts or omissions occurring prior to closing under existing agreements.

These change in control agreements and potential payments and benefits payable to the named executive officers, equity award acceleration and indemnification rights are different from and in addition to the interests of GeoResources stockholders generally. For a discussion of the interests of directors and executive officers in the merger, see The Merger Interests of GeoResources Directors and Executive Officers in the Merger beginning on page .

The merger agreement limits GeoResources ability to pursue alternatives to the merger.

The merger agreement contains provisions that could adversely impact competing proposals to acquire GeoResources. These provisions include the prohibition on GeoResources generally from soliciting any acquisition proposal or offer for a competing transaction and the requirement that GeoResources pay a termination fee of approximately $27.8 million in cash if the merger agreement is terminated in specified circumstances in connection with an alternative transaction. In addition, even if the board of directors of GeoResources determines that a competing proposal to acquire GeoResources is superior, GeoResources may not exercise its right to terminate the merger agreement unless it notifies Halcón of its intention to do so and gives Halcón at least four business days to propose revisions to the terms of the merger agreement or to make another proposal in response to the competing proposal. See The Merger Agreement GeoResources Ability to Make an Adverse Recommendation Change in Response to a Superior Proposal beginning on page . In addition, in the event of a termination resulting from a breach of GeoResources representations, warranties or covenants in the merger agreement, or if the GeoResources stockholders fail to approve the transactions contemplated by the merger agreement, GeoResources must reimburse Halcón for its fees and expenses incurred in connection with the merger agreement in an amount not to exceed $10 million.

Halcón required GeoResources to agree to these provisions as a condition to Halcón s willingness to enter into the merger agreement. These provisions, however, might discourage a third party that might have an interest in acquiring all or a significant part of GeoResources from considering or proposing that acquisition, even if that party were prepared to pay consideration with a higher value than the current proposed merger consideration. Furthermore, the termination fee may result in a potential competing acquiror proposing to pay a lower per share price to acquire GeoResources than it might otherwise have proposed to pay.

GeoResources stockholders will have a significantly reduced ownership and voting interest after the merger and will exercise less influence over management.

Immediately after the completion of the merger, it is expected that former GeoResources stockholders, who collectively own 100% of GeoResources, will own approximately 26% of Halcón, based on the number of shares of GeoResources and Halcón common stock outstanding as of May 15, 2012. Consequently, GeoResources stockholders will have less influence over the management and policies of Halcón than they currently have over the management and policies of GeoResources.

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The merger and related transactions are subject to approval by the stockholders of both Halcón and GeoResources.

In order for the merger to be completed, GeoResources stockholders must approve the merger agreement, which requires the affirmative vote of the holders of at least a majority of the outstanding shares of GeoResources common stock entitled to vote. In addition, under applicable NYSE rules, Halcón s stockholders must approve the issuance of the shares of Halcón common stock to GeoResources stockholders as part of the merger consideration. Approval of the issuance of shares of Halcón common stock to GeoResources stockholders under NYSE rules requires approval by holders of at least a majority of the total votes cast. Under applicable NYSE rules, the total votes cast (whether for, against or abstain) on the share issuance proposal must also represent a majority of the shares of Halcón common stock outstanding.

Any delay in completing the merger may substantially reduce the benefits expected to be obtained from the merger.

In addition to obtaining any required governmental clearances and approvals, closing of the merger is conditioned on obtaining various approvals by Halcón s and GeoResources respective stockholders and a number of other conditions beyond the control of Halcón and GeoResources. These conditions may prevent or delay the merger from being completed. Halcón and GeoResources cannot predict whether or when the conditions required to complete the merger will be satisfied. Any delay in completing the merger may materially adversely affect the ability of the combined company to attain the benefits that Halcón and GeoResources expect to achieve from the merger. If the merger is not completed on or before December 31, 2012, either Halcón or GeoResources may terminate the merger agreement, unless the failure to complete the merger by that date is due to the failure of the party seeking to terminate the merger agreement to fulfill any material obligations under the merger agreement or a material breach of the merger agreement by such party. See The Merger Agreement Conditions to the Completion of the Merger.

Several lawsuits have been filed against GeoResources and Halcón challenging the merger, and an adverse ruling in any such lawsuit may delay or prevent the merger from being completed.

GeoResources, members of GeoResources board of directors, and Halcón have been named as defendants in a number of putative class action lawsuits brought by certain GeoResources stockholders challenging the merger and generally alleging, among other things, that the director defendants, aided and abetted by GeoResources and Halcón, breached their fiduciary duties to GeoResources stockholders by entering into the merger agreement for merger consideration each plaintiff claims is inadequate and pursuant to a process the plaintiff claims to be flawed. The lawsuits seek, among other things, to enjoin the defendants from consummating the merger on the agreed-upon terms or to rescind the merger to the extent already implemented, as well as damages, expenses, and attorney s fees. The existence of these lawsuits could delay the completion of, or jeopardize GeoResources and Halcón s ability to complete, the merger. For more information about the lawsuits related to the merger, see The Merger Litigation Relating to the Merger beginning on page .

Merger-related charges will be incurred.

Halcón and GeoResources estimate that, as a result of the merger, the combined company will incur change-in-control cash expenses of approximately $3.0 million. In addition, Halcón and GeoResources expect to incur other merger-related cash expenses of approximately $25 million, consisting of investment banking, legal and accounting fees and financial printing and other related charges. The foregoing amounts are preliminary estimates and the actual amounts may be higher or lower. Moreover, the combined company is likely to incur additional expenses in future periods in connection with the integration of Halcón s and GeoResources businesses.

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The rights of GeoResources stockholders will be governed by Halcón s certificate of incorporation and bylaws and subject to Delaware law.

All GeoResources stockholders who receive shares of Halcón common stock in the merger will become Halcón stockholders and their rights as stockholders will be governed by the Delaware General Corporation Law and Halcón s certificate of incorporation and bylaws. There are material differences between the current rights of GeoResources stockholders, which are governed by the CBCA and GeoResources articles of incorporation and bylaws, and the rights of holders of Halcón common stock. See Comparison of Rights of Halcón Stockholders and GeoResources Stockholders beginning on page .

GeoResources may have difficulty attracting, motivating and retaining executives and other key employees in light of the merger.

Uncertainty about the effect of the merger on GeoResources employees may have an adverse effect on GeoResources and consequently Halcón. This uncertainty may impair GeoResources ability to attract, retain and motivate key personnel until the merger is completed. Employee retention may be particularly challenging during the pendency of the merger, as employees may experience uncertainty about their future roles with Halcón. If key employees of GeoResources depart because of issues relating to the uncertainty and difficulty of integration or a desire not to become employees of Halcón, Halcón s ability to realize the anticipated benefits of the merger could be delayed or reduced.

Failure to complete the merger could negatively impact the stock price and the future business and financial results of GeoResources.

If the merger is not completed, the ongoing business of GeoResources may be adversely affected and GeoResources would be subject to a number of risks, including the following:

- GeoResources will not realize the benefits expected from the merger, including a potentially enhanced competitive and financial position, and instead will be subject to all the risks it currently faces as an independent company;

- GeoResources may experience negative reactions from the financial markets and GeoResources customers and employees;

- under the merger agreement, GeoResources may be required to pay to Halcón a termination fee of approximately $27.8 million if the merger agreement is terminated under certain circumstances. In addition, in the event of a termination resulting from a breach of GeoResources representations and warranties or covenants in the merger agreement, or if the GeoResources stockholders fail to approve the transactions contemplated by the merger agreement, GeoResources must reimburse Halcón for its fees and expenses incurred in connection with the merger agreement in an amount not to exceed $10 million. If such fees are payable, the payment of these fees could have material and adverse consequences to the financial condition and operations of GeoResources (see The Merger Agreement Termination of the Merger Agreement);

- the merger agreement places certain restrictions on the conduct of GeoResources business prior to the completion of the merger or the termination of the merger agreement. Such restrictions, the waiver of which is subject to the consent of Halcón, may prevent GeoResources from making certain acquisitions, taking certain other specified actions or otherwise pursuing business opportunities during the pendency of the merger (see The Merger Agreement Conduct of Business Pending the Merger for a description of the restrictive covenants applicable to GeoResources); and

- matters relating to the merger (including integration planning) may require substantial commitments of time and resources by GeoResources management, which would otherwise have been devoted to other opportunities that may have been beneficial to GeoResources as an independent company.

There can be no assurance that the risks described above will not materialize, and if any of them do, they may adversely affect GeoResources business, financial results and stock price.

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Risks Relating to the Combined Company s Operations After the Consummation of the Merger

We may not be able to successfully integrate the businesses of Halcón and GeoResources following the merger.

The success of the merger depends in large part upon our ability to integrate our organizations, operations, systems and personnel. The integration of two previously independent companies is a challenging, time-consuming and costly process. Halcón and GeoResources have operated and, until the effective time of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with suppliers, customers and employees or to achieve the anticipated benefits of the merger. In addition, successful integration of the companies will require the dedication of significant management resources, which will temporarily detract attention from the day-to-day businesses of the combined company. If we are not able to integrate our organizations, operations, systems and personnel in a timely and efficient manner, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

Halcón s merger with GeoResources, if completed, may not achieve its intended results.

Halcón and GeoResources entered into the merger agreement with the expectation that the merger would result in various benefits, cost savings and operating efficiencies. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether the business of GeoResources is integrated in an efficient and effective manner. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues generated by the combined company, and diversion of management s time and energy and could have an adverse effect on the combined company s financial position, results of operations or cash flows.

Risks Relating to Halcón s Business

You should read and consider risk factors specific to Halcón s business that will also affect the combined company after the merger, described in Part I, Item 1A of Halcón s Annual Report on Form 10-K for the year ended December 31, 2011 and in Part II, Item 1A of Halcón s Quarterly Report on Form 10-Q for the period ended March 31, 2012, each of which has been filed by Halcón with the SEC and is incorporated by reference into this document. See Where You Can Find More Information in this joint proxy statement/prospectus for the location of information incorporated by reference in this document.

Risks Relating to GeoResources Business

You should read and consider risk factors specific to GeoResources business that will also affect the combined company after the merger, described in Part I, Item 1A of GeoResources Annual Report on Form 10-K for the year ended December 31, 2011, which has been filed by GeoResources with the SEC and is incorporated by reference into this document. See Where You Can Find More Information in this joint proxy statement/prospectus for the location of information incorporated by reference in this document.

Risks Relating to Halcón Common Stock Following the Merger

A delay in the effectiveness of the registration statement for the resale of Halcón common stock into which previously issued preferred stock converted will trigger significant payment obligations.

On April 17, 2012, Halcón s outstanding preferred stock automatically converted into approximately 44.4 million shares of Halcón common stock. Halcón has filed a registration statement to register for resale the common stock into which the preferred stock converted. If the registration statement is not declared effective by the SEC on or before July 3, 2012, Halcón will become liable, for so long as such delay continues, to pay the

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holders of the common stock issued upon conversion of the preferred stock a per diem cash penalty of 0.0333% of the price at which the preferred stock was sold, or $133,200 per day. No assurance can be given that Halcón will have sufficient cash to satisfy the registration penalties in the event that the registration of the common stock is delayed.

The trading price of Halcón common stock may be volatile.

The trading price of shares of Halcón common stock has from time to time fluctuated widely and in the future may be subject to similar fluctuations. The trading price may be affected by a number of factors including the risk factors set forth in this document and incorporated herein by reference, as well as Halcón s operating results, financial condition, drilling activities and general conditions in the oil and natural gas exploration and development industry, the economy, the securities markets and other events. In addition, Halcón has filed, and is working towards having declared effective, a registration statement to permit the public resale of approximately 44.4 million shares of common stock issued upon conversion of the preferred stock sold on March 5, 2012, representing approximately 31% of the issued and outstanding shares of Halcón common stock as of May 15, 2012. Further, HALRES holds approximately 73.3 million shares of common stock of Halcón, as well as a warrant to purchase approximately 36.6 million shares of common stock that is currently exercisable and a promissory note that is convertible within two years into approximately 41.4 million shares of Halcón common stock. HALRES may require that Halcón file a registration statement for the resale of all of the common stock it owns at any time pursuant to the terms of a registration rights agreement that was entered into in February 2012. HALRES will also be eligible beginning in August 2012 to sell shares of Halcón common stock it owns subject to compliance with Rule 144.

The influx of such a substantial number of shares into the public market could have a significant negative effect on the trading price of Halcón common stock. In recent years broad stock market indices, in general, and smaller capitalization companies, in particular, have experienced substantial price fluctuations. In a volatile market, Halcón may experience wide fluctuations in the market price of its common stock. These fluctuations may have an extremely negative effect on the market price of Halcón common stock.

Certain provisions of Delaware law, Halcón s certificate of incorporation and bylaws could hinder, delay or prevent a change in control of Halcón, which could adversely affect the price of Halcón common stock.

Certain provisions of Delaware law, Halcón s certificate of incorporation and bylaws could have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control of Halcón. Delaware law imposes restrictions on mergers and other business combinations between Halcón and any holder of 15% or more of its outstanding common stock. In addition, our certificate of incorporation and bylaws include the following provisions:

Classified Board of Directors. Halcón s board of directors is divided into three classes with staggered terms of office of three years each. The classification and staggered terms of office of Halcón s directors make it more difficult for a third party to gain control of Halcón s board of directors. At least two annual meetings of stockholders, instead of one, generally would be required to effect a change in a majority of the board of directors.

Removal of Directors. Under Delaware law, directors that serve on a classified board, such as Halcón s directors, may be removed only for cause by the affirmative vote of the holders of at least a majority of the voting power of the outstanding shares of our capital stock entitled to vote.

Number of Directors, Board Vacancies, Term of Office. Halcón s certificate of incorporation and our bylaws provide that only the board of directors may set the number of directors. Halcón has elected to be subject to certain provisions of Delaware law which vest in the board of directors the exclusive right, by the affirmative vote of a majority of the remaining directors, to fill vacancies on the board even if the remaining directors do not constitute a quorum. When effected, these provisions of Delaware law, which are applicable even if other provisions of Delaware law or the charter or bylaws

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provide to the contrary, also provide that any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of stockholders as would otherwise be the case, and until his or her successor is elected and qualifies.

Advance Notice Provisions for Stockholder Nominations and Proposals. Halcón s bylaws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of stockholders. This bylaw provision limits the ability of stockholders to make nominations of persons for election as directors or to introduce other proposals unless Halcón is notified in a timely manner prior to the meeting.

Amending the Bylaws. Halcón s certificate of incorporation permits its board of directors to adopt, alter or repeal any provision of the bylaws or to make new bylaws. Halcón s bylaws also may be amended by the affirmative vote of its stockholders.

Authorized but Unissued Shares. Under Halcón s certificate of incorporation, its board of directors has authority to cause the issuance of preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without approval of its stockholders. Nothing in our certificate of incorporation precludes future issuances without stockholder approval of the authorized but unissued shares of our common stock.

Offerings of debt by Halcón, which would be senior to Halcón s common stock upon liquidation, and/or preferred stock, which would be senior to Halcón common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of Halcón s common stock.

Halcón may from time to time issue debt securities in connection with any number of activities, including strategic acquisitions, repayment of debt, capital expenditures and other uses. Halcón anticipates, for instance, the issuance of high-yield debt in connection with the closing of the merger, as reflected in the unaudited pro forma condensed combined financial information set forth in this joint proxy statement/prospectus. Upon liquidation, holders of such debt securities and lenders with respect to other borrowings by Halcón will receive distributions of Halcón s available assets prior to the holders of Halcón s common stock.

Halcón s board of directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. Halcón s board of directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over Halcón common stock with respect to dividends or upon Halcón s dissolution, winding-up and liquidation and other terms. If Halcón issues preferred stock in the future that has a preference over its common stock with respect to the payment of dividends or upon its liquidation, dissolution, or winding-up, or if Halcón issues preferred stock with voting rights that dilute the voting power of the common stock, the rights of holders of Halcón common stock or the market price of Halcón common stock could be adversely affected.

In addition, offerings of Halcón common stock or of securities linked to Halcón common stock may dilute the holdings of Halcón existing common stockholders or reduce the market price of Halcón common stock. Holders of Halcón common stock are not entitled to preemptive rights.

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THE COMPANIES

Halcón Resources Corporation

Halcón Resources Corporation is an independent energy company engaged in the acquisition, production, exploration and development of onshore oil and natural gas properties in the United States. Halcón s producing properties are located primarily in Wichita, Wilbarger and Starr Counties, Texas, Pontotoc County, Oklahoma, and in several parishes in Louisiana. Halcón s management team has extensive technical and operating expertise in all areas of the company s geographic focus.

As of December 31, 2011, Halcón s estimated net proved reserves were 21.1 million barrels of oil equivalent, or MMboe, of which approximately 59% were crude oil, 32% were natural gas, and 9% were natural gas liquids. At December 31, 2011, Halcón s proved developed reserves comprised 64% of its total proved reserves. For the year ended December 31, 2011, Halcón s net production averaged 4,121 Boe per day, which was 59% oil, 29% natural gas, and 12% natural gas liquids, net to its interest. For the quarter ended March 31, 2012, Halcón s net production averaged 4,055 Boe per day, which was 61% oil, 28% natural gas, and 11% natural gas liquids.

At December 31, 2011, Halcón had total leasehold interests of 115,986 net acres, including approximately 14,264 acres in the Electra/Burkburnett Field in north Texas, approximately 11,082 acres in the Northeast Fitts and Allen Fields in Oklahoma, 8,800 acres in the Osage Concession in Oklahoma, and approximately 5,856 acres in south Texas. For more information regarding the operations and assets of Halcón, see Item 2. Properties in its Annual Report on Form 10-K for the year ended December 31, 2011, which is incorporated herein by reference. See Where You Can Find More Information.

Halcón s primary focus is to expand its leasehold position in areas Halcón has determined are prospective for oil or liquids-rich resource plays. Halcón has identified several target resource plays for potential leasehold acquisition, including the Utica Shale/Point Pleasant formations in Ohio and Pennsylvania, the Mississippian Lime formation in northern Oklahoma and southern Kansas, the Wilcox formation in southwest Louisiana and the Woodbine/Eagle Ford formations in east Texas. In addition to Halcón s ongoing lease acquisition efforts in its targeted resource plays, Halcón has identified several new exploratory areas it believes are prospective for oil and liquids-rich hydrocarbons.

Halcón is a Delaware corporation formerly known as RAM Energy Resources, Inc. Halcón s principal offices are located at 1000 Louisiana Street, Suite 6700, Houston, Texas 77002, telephone number (832) 538-0300, and its website can be found at www.halconresources.com. Unless specifically incorporated by reference in this joint proxy statement/prospectus, information that you may find on Halcón s website is not part of this joint proxy statement/prospectus.

Recent Developments

Halcón has recently completed several transactions:

Recapitalization by HALRES

On February 8, 2012, HALRES, a newly-formed company led by Floyd C. Wilson, former Chairman and Chief Executive Officer of Petrohawk Energy Corporation, recapitalized Halcón with a $550.0 million investment structured as the purchase of $275.0 million in new common stock, a $275.0 million five-year 8% convertible note and warrants for the purchase of an additional 36,666,667 million shares of Halcón common stock at an exercise price of $4.50 per share. At closing, Floyd C. Wilson was appointed as Chairman, President and Chief Executive Officer of Halcón, and the name of the company was changed from RAM Energy Resources, Inc. to Halcón Resources Corporation. Mark J. Mize was also appointed as Executive Vice President, Chief Financial Officer, and Treasurer and was designated as principal accounting officer of Halcón.

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Additionally, Halcón s board of directors was reconstituted to consist of 10 new members: Floyd C. Wilson, Tucker S. Bridwell, James W. Christmas, Thomas R. Fuller, James L. Irish III, E. Murphy Markham IV, David B. Miller, Daniel A. Rioux, Stephen P. Smiley and Mark A. Welsh IV. Mr. Wilson was elected Chairman of the Board and Mr. Irish was named Lead Independent Director. The Audit Committee of the Halcón board of directors is composed of Mr. Irish (Chairman) and Messrs. Christmas and Smiley. The Nominating and Corporate Governance Committee is composed of Mr. Christmas (Chairman) and Messrs. Fuller, Rioux and Welsh. The Compensation Committee is composed of Mr. Smiley (Chairman) and Messrs. Bridwell, Markham and Rioux. The Reserves Committee is composed of Mr. Fuller (Chairman) and Messrs. Bridwell and Welsh.

Halcón Management

Floyd C. Wilson became Halcón s Chairman, President and Chief Executive Officer in February 2012 as a result of Halcón s recapitalization transaction with HALRES. Prior to February 2012, he was President of HALRES, an oil and natural gas company that he founded in October 2011. Mr. Wilson served as Chairman of the Board and Chief Executive Officer of Petrohawk Energy Corporation from May 25, 2004 until BHP Billiton acquired Petrohawk for $15.1 billion, including assumed debt, in August 2011. Mr. Wilson also served as President of Petrohawk from May 25, 2004 until September 8, 2009. Prior to May 25, 2004, he was President and Chief Executive Officer of PHAWK, LLC which he founded in June 2003. Mr. Wilson was the Chairman and Chief Executive Officer of 3TEC Energy Corporation from August 1999 until its merger with Plains Exploration & Production Company in June 2003. Mr. Wilson founded W/E Energy Company L.L.C., formerly known as 3TEC Energy Company L.L.C. in 1998 and served as its President until August 1999. Mr. Wilson began his career in the energy business in Houston, Texas in 1970 as a completion engineer. He moved to Wichita, Kansas in 1976 to start an oil and gas operating company, one of several private energy ventures which preceded the formation of Hugoton Energy Corporation in 1987, where he served as Chairman, President and Chief Executive Officer. In 1994, Hugoton completed an initial public offering and was merged into Chesapeake Energy Corporation in 1998.

Mark J. Mize has served as Executive Vice President, Chief Financial Officer and Treasurer of Halcón since February 2012, positions to which he was elected upon the closing of Halcón s recapitalization transaction with HALRES. Mr. Mize served as Executive Vice President Chief Financial Officer and Treasurer of Petrohawk Energy Corporation from August 10, 2007 until BHP Billiton acquired Petrohawk for $15.1 billion, including assumed debt, in August 2011. Mr. Mize served as the Chief Ethics Officer and Insider Trading Compliance Officer for Petrohawk until June 17, 2009. Additionally, he served as Vice President, Chief Accounting Officer and Controller at Petrohawk from July 2005 until August 10, 2007. Mr. Mize first joined Petrohawk on November 29, 2004 as Controller. Prior to working at Petrohawk, Mr. Mize was the Manager of Financial Reporting of Cabot Oil & Gas Corporation, a public oil and gas exploration company, from January 2003 to November 2004. Prior to his employment at Cabot Oil & Gas Corporation, he was an Audit Manager with PricewaterhouseCoopers LLP from 1996 to 2002. Mr. Mize is a Certified Public Accountant.

New Revolving Credit Facility

In connection with the closing of the recapitalization transaction with HALRES, Halcón entered into a senior revolving credit agreement, which is referred to as the Halcón credit agreement, with J.P. Morgan Chase Bank, N.A., as administrative agent, and certain other lenders on February 8, 2012. The Halcón credit agreement provides for a $500.0 million facility with an initial borrowing base of $225.0 million. Amounts borrowed under the Halcón credit agreement will initially mature on February 8, 2017. The borrowing base will be redetermined semi-annually, with the company and the lenders each having the right to one interim unscheduled redetermination between any two consecutive semi-annual redeterminations. The borrowing base takes into account Halcón s oil and natural gas properties, proved reserves, total indebtedness, and other relevant factors consistent with customary oil and gas lending criteria. The borrowing base is subject to a reduction equal to the product of 0.25 multiplied by the stated principal amount (without regard to any initial issue discount) of any notes or other long-term debt securities that Halcón may issue.

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Private Placement of Convertible Preferred Stock

On March 5, 2012, Halcón sold in a private placement to certain institutional accredited investors 4,444.4511 shares of convertible preferred stock for approximately $400.0 million before offering expenses. On April 17, 2012, the convertible preferred stock automatically converted into 44,444,511 shares of Halcón common stock after a definitive information statement was delivered to holders of Halcón common stock notifying them that Halcón s majority stockholder had consented to the issuance of common stock upon conversion of the convertible preferred stock. No dividend was paid on the convertible preferred stock.

Leopard Sub I, Inc. and Leopard Sub II, LLC

Leopard Sub I, Inc. is a direct wholly owned subsidiary of Halcón and was formed solely for the purpose of consummating the merger. Leopard Sub II, LLC is a direct wholly owned subsidiary of Halcón and was formed solely for the purpose of consummating the subsequent merger. Neither Leopard Sub I, Inc. nor Leopard Sub II, LLC has carried on any activities to date, except for activities incidental to formation and activities undertaken in connection with the merger. Their principal offices are located at 1000 Louisiana Street, Suite 6700, Houston, Texas 77002, telephone number (832) 538-0300.

GeoResources, Inc.

GeoResources develops, acquires, discovers and produces crude oil and natural gas in the Southwest, Gulf Coast and Williston Basin regions of the United States through the acquisition of undeveloped acreage, exploration and development drilling, and purchases of producing and undeveloped reserves. Its management and technical staff have extensive operational, geological, geophysical and engineering expertise in its areas of operation. Its management team also has extensive oil and gas administrative, financial and acquisition and divestiture-related experience.

GeoResources pursues a value-driven growth strategy focused on pursuing projects that generate strong rates of return and stockholder value. This strategy is implemented through acquisitions, development drilling and exploration activities, currently focused on oil-weighted projects in the Bakken trend in the Williston Basin of North Dakota and Montana and in the Eagle Ford and Austin Chalk trends of Texas. GeoResources focuses on building production, reserves and cash flow while continually working to expand its undeveloped acreage and drilling inventory. GeoResources plans to continue to exploit its current assets and acreage positions particularly in the Bakken, Austin Chalk and Eagle Ford trends through cost-efficient drilling and completion activities, while also utilizing its technical staff to identify and evaluate other targeted areas or potential reservoirs or trends for future growth. Historically, GeoResources conservative capital structure and its diverse asset portfolio has allowed it to pursue an operating strategy pursuant to which it shifted its emphasis among acquisitions, development drilling and exploration activities in addition to adjusting its capital plans among regions and projects all in an effort to take advantage of changing market conditions.

At December 31, 2011 GeoResources estimated net proved reserves were 29.2 MMboe, of which approximately 67% were crude oil, 29% were natural gas, and 4% were natural gas liquids. At December 31, 2011 GeoResources proved developed reserves comprise 69% of its total proved reserves. For the year ended December 31, 2011, GeoResources net production averaged 5,270 Boe per day, which was 64% oil, 34% natural gas, and 2% natural gas liquids. For the quarter ended March 31, 2012, GeoResources net production averaged 6,809 Boe per day, which was 65% oil, 32% natural gas, and 3% natural gas liquids.

At December 31, 2011, GeoResources had total leasehold interests of 235,234 net acres, including approximately 55,000 acres in the Bakken trend of North Dakota and Montana and 24,000 acres in the Eagle Ford trend in South Texas. For more information regarding the operations and assets of GeoResources, see Item 2. Properties in its 2011 Annual Report on Form 10-K and Form 10-K/A which are incorporated herein by reference. See Where You Can Find More Information.

GeoResources principal offices are located at 110 Cypress Station Drive, Suite 220, Houston, Texas 77090, telephone number (281) 537-9920, and its website can be found at www.georesourcesinc.com. Unless specifically incorporated by reference in this joint proxy statement/prospectus, information that you may find on GeoResources website is not part of this joint proxy statement/prospectus.

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HALCÓN SPECIAL MEETING

General

This joint proxy statement/prospectus is being furnished to Halcón stockholders in connection with the solicitation of proxies by the Halcón board of directors to be used at the special meeting of stockholders to be held at , on , 2012 at a.m., local time, and at any adjournment or postponement of that meeting. This joint proxy statement/prospectus and the enclosed form of proxy are being sent to Halcón stockholders on or about , 2012.

Purpose of the Halcón Special Meeting

At the Halcón special meeting, holders of Halcón common stock as of the record date will be asked to consider and vote on:

Proposal 1:	the proposal to approve the issuance of shares of Halcón common stock pursuant to the merger agreement;
Proposal 2:	the proposal to elect, conditioned upon closing of the merger, one nominee to the Halcón board of directors to serve as a Class A director until his successor is duly elected or until his earlier death, resignation or removal; and
Proposal 3:	the proposal to authorize the Halcón board of directors, in its discretion, to adjourn the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the issuance of shares of Halcón common stock to GeoResources stockholders pursuant to the merger agreement or to elect one additional Class A director to Halcón s board of directors.

Information Concerning Additional Class A Director

The directors and executive officers of Halcón prior to the merger will continue to serve as directors and executive officers of Halcón after the merger. Halcón has agreed to take all necessary action to cause, at the effective time of the merger, the number of directors on the Halcón board of directors to be increased from 10 to 11 and one individual, as mutually agreed by Halcón and GeoResources, to be elected to the Halcón board of directors as a Class A director in connection with the consummation of the merger. In the event that the merger is not completed, the foregoing director election will not take effect.

As of May 18, 2012, Halcón and GeoResources had not determined the nominee for election as a Class A director to Halcón s board of directors. Additional information regarding the nominee, including his or her background, business experience, transactions with related persons, independence and other information required under the applicable provisions of Items 401, 404 and 407 of Regulation S-K will be included in this joint proxy statement/prospectus prior to the effectiveness of the registration statement, of which this joint proxy statement/prospectus constitutes a part.

Recommendation of the Halcón Board of Directors

The board of directors of Halcón unanimously: (i) has determined that the merger agreement and the transactions contemplated thereby, including the merger, are fair to, and in the best interests of, Halcón and its stockholders and (ii) has approved the merger agreement, the merger and the other transactions contemplated thereby.

The Halcón board of directors unanimously recommends that Halcón stockholders vote:

FOR the proposal to approve the issuance of shares of Halcón common stock pursuant to the merger agreement;

FOR the proposal to elect, conditioned upon closing of the merger, one additional Class A director to the Halcón board of directors; and

FOR the proposal to authorize Halcón s board of directors to adjourn the special meeting to solicit additional proxies.

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Record Date and Voting

The Halcón board of directors has fixed the close of business on , 2012 as the record date for determining the holders of shares of Halcón common stock entitled to receive notice of and to vote at the Halcón special meeting and any adjournments or postponements thereof. Only holders of record of shares of Halcón common stock at the close of business on that date will be entitled to vote at the Halcón special meeting and at any adjournment or postponement of that meeting. At the close of business on the record date, there were shares of Halcón common stock outstanding, held by approximately holders of record.

Each holder of shares of Halcón common stock outstanding on the record date will be entitled to one vote for each share held of record upon each matter properly submitted at the Halcón special meeting and at any adjournment or postponement thereof. In order for Halcón to satisfy its quorum requirements, the holders of at least a majority of the total number of outstanding shares of Halcón common stock entitled to vote at the meeting must be present. You will be deemed to be present if you attend the meeting or if you submit a proxy card (including through the Internet or telephone) that is received at or prior to the meeting (and not revoked).

If your proxy card is properly executed and received by Halcón in time to be voted at the Halcón special meeting, the shares represented by your proxy card (including those given through the Internet or by telephone) will be voted in accordance with the instructions that you mark on your proxy card. If you execute your proxy but do not provide Halcón with any instructions, your shares will be voted FOR the proposals set forth in the notice of special meeting. If your shares are held in street name by your broker or other nominee and you do not provide that holder with instructions on how to vote your shares, your shares will NOT be voted.

The only matters that we expect to be presented at the Halcón special meeting are set forth in the notice of special meeting. If any other matters properly come before the Halcón special meeting, the persons named in the proxy card will vote the shares represented by all properly executed proxies on such matters in their best judgment.

Quorum

If you vote in person or by proxy at the Halcón special meeting, you will be counted for purposes of determining whether there is a quorum at the meeting. Shares of Halcón common stock present in person or by proxy at the Halcón special meeting that are entitled to vote but are not voted will be counted for the purpose of determining whether there is a quorum for the transaction of business at the Halcón special meeting. Broker non-votes will not be counted in determining the presence of a quorum. A broker non-vote occurs when a bank, broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

Vote Required

The affirmative vote of a majority of the votes cast in person or by proxy and entitled to vote at the Halcón special meeting is required to approve the issuance of the shares of Halcón common stock in connection with the merger. The election of the Class A director is by a plurality of affirmative votes cast at a meeting at which a quorum is present, and, assuming a quorum is present at the special meeting, the failure of a Halcón stockholder to vote or a decision by a Halcón stockholder to abstain will have no effect in determining the election of the director. To approve the proposal to authorize Halcón s board of directors to adjourn the special meeting requires the affirmative vote of at least a majority of the outstanding shares of Halcón common stock represented in person or by proxy at the Halcón special meeting and entitled to vote on such proposal.

As of the record date:

- Halcón directors and executive officers and their affiliates owned and were entitled to vote approximately shares of Halcón common stock, representing approximately % of the outstanding shares of Halcón common stock;

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- HALRES, holder of approximately 51% of Halcón s outstanding common stock, entered into a voting agreement with GeoResources pursuant to which HALRES has agreed, among other things, to vote all shares of Halcón common stock owned by HALRES in favor of the transactions contemplated in the merger agreement and to grant an irrevocable proxy to Frank A. Lodzinski, President and Chief Executive Officer of GeoResources, empowering him to vote all such shares of Halcón common stock at any meeting of Halcón s stockholders called for the purpose of voting on the proposals described above; and
- GeoResources directors and executive officers and their affiliates owned 2,834 shares of Halcón common stock, which were purchased in late 2011 and early January 2012;

We currently expect that Halcón s directors and executive officers will vote any shares of Halcón common stock they may own FOR all proposals set forth in the notice of special meeting.

Revocability of Proxies

The presence of a stockholder at the Halcón special meeting will not automatically revoke that stockholder s proxy. However, a stockholder may revoke a proxy at any time prior to its exercise by:

- submitting a written revocation prior to the special meeting to William T. Heller IV, Corporate Secretary, Halcón Resources Corporation, 1000 Louisiana, Suite 6700, Houston, Texas, 77002;
- submitting another proxy prior to the special meeting by telephone, via the Internet or by mail that is dated later than the original proxy; or
- attending the Halcón special meeting and voting in person.

If your shares are held of record by a broker or other nominee, you must follow the instructions on the form you receive from your broker or other nominee with respect to changing or revoking your proxy.

Voting Electronically Through the Internet or by Telephone; Voting by Mail

Halcón stockholders of record and many stockholders who hold their shares through a broker or other nominee will have the option to submit their proxy cards or voting instruction cards electronically through the Internet or by telephone. Please note that there are separate arrangements for using the Internet and telephone depending on whether your shares are registered in Halcón s stock records in your name or in the name of a broker or other nominee. If you hold your shares through a broker or other nominee, you should check your proxy card or voting instruction card forwarded by your broker or other nominee to see which voting options are available.

Halcón stockholders of record may submit their proxies:

- through the Internet by visiting a website established for that purpose at http://www.   .com and following the instructions; or
- by telephone by calling the toll-free number   in the U.S., Puerto Rico, Canada or Mexico on a touch-tone phone and following the recorded instructions.

Solicitation of Proxies

In addition to solicitation by mail, directors, officers and employees of Halcón may solicit proxies for the special meeting from Halcón stockholders personally or by telephone and other electronic means without additional remuneration for soliciting such proxies. We will provide persons, firms, banks and corporations holding shares in their names or in the names of nominees, which in either case are beneficially owned by others, proxy material for transmittal to such beneficial owners and will reimburse such record owners for their expenses in taking such actions.

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GEORESOURCES SPECIAL MEETING

General

This joint proxy statement/prospectus is being furnished to GeoResources stockholders in connection with the solicitation of proxies by the GeoResources board of directors to be used at the special meeting of stockholders to be held at , on , 2012 at a.m., local time, and at any adjournment or postponement of that meeting. This joint proxy statement/prospectus and the enclosed form of proxy are first being sent to GeoResources stockholders on or about , 2012.

Purpose of the GeoResources Special Meeting

At the GeoResources special meeting, holders of GeoResources common stock as of the record date will be asked to consider and vote on:

Proposal 1:	the proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, which are further described in the sections entitled The Merger and The Merger Agreement;
Proposal 2:	the proposal to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to GeoResources named executive officers that is based on or otherwise relates to the merger, which is further described in the section entitled The Merger Interests of GeoResources Directors and Executive Officers in the Merger; and
Proposal 3:	the proposal to adjourn the GeoResources special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve the foregoing proposal regarding the merger.

Recommendation of the GeoResources Board of Directors

The GeoResources board of directors has unanimously (i) determined that the merger is fair to and in the best interests of GeoResources and its stockholders, (ii) declared the merger agreement and the transactions contemplated thereby advisable, and (iii) approved and adopted the merger and the merger agreement (and the forms of exhibits thereto) and the transactions contemplated thereby.

The GeoResources board of directors unanimously recommends that GeoResources stockholders vote:

FOR the proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement;

FOR the proposal to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to GeoResources named executive officers that is based on or otherwise relates to the merger; and

FOR the adjournment proposal to authorize GeoResources board of directors to adjourn the special meeting to solicit additional proxies.

Record Date and Voting

The GeoResources board of directors has fixed the close of business on , 2012 as the record date for determining the holders of shares of GeoResources common stock entitled to receive notice of and to vote at the GeoResources special meeting and any adjournments or postponements thereof. Only holders of record of shares of GeoResources common stock at the close of business on that date will be entitled to vote at the GeoResources special meeting and at any adjournment or postponement of that meeting. At the close of business on the record date, there were shares of GeoResources common stock outstanding, held by approximately holders of record.

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Each holder of shares of GeoResources common stock outstanding on the record date will be entitled to one vote for each share held of record upon each matter properly submitted at the GeoResources special meeting and at any adjournment or postponement thereof. In order for GeoResources to satisfy its quorum requirements, the holders of at least a majority of the total number of outstanding shares of GeoResources common stock entitled to vote at the meeting must be present. You will be deemed to be present if you attend the meeting or if you submit a proxy card (including through the Internet, telephone or by mail) that is received at or prior to the meeting (and not revoked).

If your proxy card is properly executed and received by GeoResources in time to be voted at the GeoResources special meeting or your voting instructions are properly submitted electronically to GeoResources in time to be voted at the GeoResources special meeting, the shares represented by your proxy card (including those given through the Internet, by telephone or by mail) will be voted in accordance with the instructions that you mark on your proxy card. If you execute your proxy but do not provide GeoResources with any instructions, your shares will be voted FOR the proposals set forth in the notice of special meeting. If your shares are held in street name by your broker or other nominee and you do not provide that holder with instructions on how to vote your shares, your shares will NOT be voted.

The only matters that we expect to be presented at the GeoResources special meeting are set forth in the notice of special meeting. If any other matters properly come before the GeoResources special meeting, the persons named in the proxy card will vote the shares represented by all properly executed proxies on such matters in their best judgment.

Quorum

If you vote in person or by proxy at the GeoResources special meeting, you will be counted for purposes of determining whether there is a quorum at the meeting. Shares of GeoResources common stock present in person or by proxy at the GeoResources special meeting that are entitled to vote but are not voted will be counted for the purpose of determining whether there is a quorum for the transaction of business at the GeoResources special meeting. Broker non-votes will not be counted in determining the presence of a quorum. A broker non-vote occurs when a bank, broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

As of the record date:

- GeoResources directors and executive officers and their affiliates owned and were entitled to vote approximately shares of GeoResources common stock, representing approximately 17% of the outstanding shares of GeoResources common stock;

- Frank A. Lodzinski, Robert J. Anderson, Howard E. Ehler, Timothy D. Merrifield, Francis M. Mury, Jay F. Joliat, Michael A. Vlasic and certain of their affiliates, who together own approximately 17% of the issued and outstanding common stock of GeoResources, have entered into a voting agreement with Halcón pursuant to which these individuals have agreed, among other things, to vote all shares of GeoResources common stock owned by each of them in favor of the transactions contemplated in the merger agreement and to grant an irrevocable proxy to Floyd C. Wilson, Chairman and Chief Executive Officer of Halcón, empowering him to vote all such shares of GeoResources common stock at any meeting of GeoResources stockholders called for the purpose of voting on the merger; and

- Halcón directors and executive officers and their affiliates did not own any shares of GeoResources common stock.

We currently expect that GeoResources other directors and executive officers will vote their shares of GeoResources common stock FOR all proposals set forth in the notice of special meeting.

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Vote Required

Approval and adoption of merger agreement (Proposal 1). The affirmative vote of the holders of a majority of the outstanding shares of GeoResources common stock entitled to vote at the GeoResources special meeting is required to approve and adopt the merger agreement. The required vote of GeoResources stockholders on the merger agreement is based upon the number of outstanding shares of GeoResources common stock entitled to vote at the GeoResources special meeting, and not the number of shares that are actually voted. Brokers, banks and other nominees do not have discretionary authority to vote on this Proposal. The failure to submit a proxy card or to vote electronically via the Internet, by telephone, by mail or in person at the GeoResources special meeting of any GeoResources stockholder or the abstention from voting by any GeoResources stockholder, or the failure of any GeoResources stockholder who holds shares in street name through a broker, bank or other nominee to give voting instructions to such broker, bank or other nominee (a broker non-vote), will have the same effect as a vote against the approval and adoption of the merger agreement by the GeoResources stockholder.

Advisory vote on compensation payable in connection with the merger (Proposal 2). The affirmative vote of a majority of the votes cast by the holders of GeoResources common stock at the GeoResources special meeting is required to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to GeoResources named executive officers that is based on or otherwise relates to the merger. The required vote of holders of GeoResources common stock to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to GeoResources named executive officers that is based on or otherwise relates to the merger is based on the number of shares that are actually voted, not on the number of outstanding shares of GeoResources common stock. While the GeoResources board of directors intends to consider the vote resulting from this proposal, the vote is advisory, and therefore not binding on GeoResources or on Halcón, or the board of directors or the compensation committees of Halcón or GeoResources. Brokers, banks and other nominees do not have discretionary authority to vote on this proposal. The failure to submit a proxy card or to vote electronically via the Internet, by telephone, by mail or in person at the special meeting of GeoResources stockholders or the abstention from voting by holders of GeoResources common stock, or a broker non-vote, will have no effect on this proposal. See The Merger Interests of GeoResources Directors and Executive Officers in the Merger Compensation Payable in Connection with the Merger beginning on page .

Approval of the adjournment of the GeoResources special meeting (Proposal 3). The affirmative vote of a majority of the votes cast by holders of GeoResources common stock at the GeoResources special meeting is required to approve the proposal to adjourn the GeoResources special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the GeoResources special meeting to approve and adopt the merger agreement. The required vote of holders of GeoResources common stock to approve the proposal to adjourn the special meeting of GeoResources stockholders, if necessary, to solicit additional proxies is based on the number of shares that are actually voted, not on the number of outstanding shares of GeoResources common stock. Brokers, banks and other nominees do not have discretionary authority to vote on this proposal. The failure to submit a proxy card or to vote electronically via the Internet, by telephone, by mail or in person at the special meeting of GeoResources stockholders or the abstention from voting by holders of GeoResources common stock, or a broker non-vote, will have no effect on this proposal. In accordance with the GeoResources Bylaws, a vote to approve the proposal to adjourn the GeoResources special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the GeoResources special meeting to approve and adopt the merger agreement may be taken in the absence of a quorum. GeoResources does not intend to call a vote on this proposal if Proposal 1 has been approved at the GeoResources special meeting.

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Revocability of Proxies

The presence of a stockholder at the GeoResources special meeting will not automatically revoke that stockholder s proxy. However, a stockholder may revoke a proxy at any time prior to its exercise by:

- submitting a written revocation prior to the special meeting to Cathy Kruse, Corporate Secretary, GeoResources, Inc., 110 Cypress Station Drive, Suite 220, Houston, Texas, 77090;
- submitting another proxy prior to the special meeting by telephone, via the Internet or by mail that is dated later than the original proxy; or
- attending the GeoResources special meeting and voting in person.

If your shares are held of record by a broker or other nominee, you must follow the instructions on the form you receive from your broker or other nominee with respect to changing or revoking your proxy.

Voting Electronically through the Internet or by Telephone; Voting by Mail

GeoResources stockholders of record and many stockholders who hold their shares through a broker or other nominee will have the option to submit their proxy cards or voting instruction cards electronically through the Internet or by telephone or the proxy cards may be returned by mail with the postage-paid envelope provided. Please note that there are separate arrangements for using the Internet and telephone depending on whether your shares are registered in GeoResources stock records in your name or in the name of a broker or other nominee. If you hold your shares through a broker or other nominee, you should check your proxy card or voting instruction card forwarded by your broker or other nominee to see which voting options are available.

GeoResources stockholders of record may submit their proxies:

- through the Internet by visiting a website established for that purpose at http://www. and following the instructions;
- by telephone by calling the toll-free number in the U.S., Puerto Rico, Canada or Mexico on a touch-tone phone and following the recorded instructions; or
- by mail after marking, signing and dating your proxy card and returning it in the postage-paid envelope provided.

Solicitation of Proxies

In addition to solicitation by mail, directors, officers and employees of GeoResources may solicit proxies for the special meeting from GeoResources stockholders personally or by telephone and other electronic means without additional remuneration for soliciting such proxies. We will provide persons, firms, banks and corporations holding shares in their names or in the names of nominees, which in either case are beneficially owned by others, proxy material for transmittal to such beneficial owners and will reimburse such record owners for their expenses in taking such actions. We have also made arrangements with to assist us in soliciting proxies and have agreed to pay them $, plus reasonable expenses for these services. GeoResources and Halcón will equally share the expenses incurred in connection with the printing and mailing of this document.

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THE MERGER

The following is a description of the material aspects of the merger. While Halcón and GeoResources believe that the following description covers the material terms of the merger, the description may not contain all of the information that is important to Halcón stockholders and GeoResources stockholders. Halcón and GeoResources encourage Halcón stockholders and GeoResources stockholders to carefully read this entire joint proxy statement/prospectus, including the merger agreement attached to this joint proxy statement/prospectus as Annex A and incorporated herein by reference, for a more complete understanding of the merger.

General

The Halcón board of directors and the GeoResources board of directors each has unanimously approved the merger agreement, which provides that Merger Sub will merge with and into GeoResources, with GeoResources continuing as the surviving corporation and a wholly owned subsidiary of Halcón. We refer to this as the merger. Promptly following the completion of the merger, GeoResources as the surviving corporation from the merger will merge with and into the Second Merger Sub, with the Second Merger Sub surviving the second merger. We refer to this as the subsequent merger. Pursuant to a binding commitment, the subsequent merger will be effected shortly after the effective time of the merger, which we refer to as the effective time, without further approval, authorization or direction from or by any of the parties to the merger agreement. We have attached the merger agreement as Annex A to this joint proxy statement/prospectus. We encourage you to carefully read the merger agreement in its entirety. We currently expect that the merger and subsequent merger will be completed during the third quarter of 2012, however, we cannot predict the actual timing of the completion of the merger and subsequent merger.

Each share of Halcón common stock issued and outstanding at the effective time of the merger will remain issued and outstanding as one share of common stock of Halcón. Each share of GeoResources common stock issued and outstanding at the effective time of the merger will be converted into the right to receive $20.00 in cash and 1.932 shares of Halcón common stock, except for GeoResources common stock held by stockholders who dissent and exercise their appraisal rights under Colorado law.

Background of the Merger

Over the last 28 years, Frank A. Lodzinski, Chairman, President and Chief Executive Officer of GeoResources, has organized and managed several oil and gas companies and pursued a strategy of building them to a point when they could be merged into or sold to larger entities in order to maximize value and create liquidity for stockholders.

Mr. Lodzinski became chief executive officer of GeoResources, on April 17, 2007, when GeoResources merged with Southern Bay Oil and Gas, L.P., a Texas limited partnership, that Mr. Lodzinski organized in late 2004. Shortly thereafter, Mr. Lodzinski and the new management team began implementing its business strategy, which had been developed and refined by Mr. Lodzinski and his management team in earlier oil and gas companies. This strategy consisted of:

- enhancing the cash flow and profitability of existing properties through drilling and workover activities in addition to the implementation of cost-efficient operations;
- expanding acreage and oil and gas prospect inventory through:
    - detailed geologic and engineering review and analysis of existing properties;
    - identification of prospective areas for acquisition or leasing efforts based on geologically-focused field and regional studies;
    - selective prospect participations with other oil and gas operators; and

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acquiring additional oil and gas reserves and producing properties through asset or corporate acquisitions and/or mergers. GeoResources new management team transitioned the company from a small, regional North Dakota-based company to a full-scale exploration and production company with operations in multiple basins. At December 31, 2007, GeoResources had an estimated 15.7 Mboe of proved reserves. By 2011 the company had become a diversified operator with conventional producing assets, oil resource development and exploration opportunities located primarily in the Williston Basin, Texas and the Gulf Coast. For the year ended December 31, 2011, GeoResources sold 1.9 MMboe, had $137.7 million in revenue, and reported net income of $31.3 million and earnings per common share of $1.22. At December 31, 2011, GeoResources had total assets of $487.7 million, stockholders equity of $368.3 million and total net proved reserves of 29.2 MMboe.

Mr. Lodzinski has more than 40 years of industry experience and, aside from operating and administrative capabilities, he has gained considerable experience in capital markets, investment banking, acquisitions and divestitures and merger and acquisition activities. For example, since the 2007 Merger, GeoResources has raised approximately $187 million of equity financing through the sale of common stock in private and public transactions. Other members of GeoResources management team also have significant experience in these matters.

As part of its overall strategy, GeoResources management has maintained a regular, ongoing dialogue with investment bankers, institutional investors, private equity firms and potential joint venture partners to discuss and assess general industry conditions, GeoResources near term and long-term strategy, capital market conditions, and divestiture, acquisition or merger and/or sale opportunities, including opportunities that might involve a change in control of GeoResources for the benefit of the company s stockholders. Mr. Lodzinski s policy was to keep the GeoResources board of directors fully apprised of the substance of these meetings, inform them of current market conditions and trends in various aspects of the oil and gas business and describe recent transactions and prices being paid for reserves, production, acreage and operating oil and gas companies as a whole. Further, GeoResources management has consistently provided the GeoResources board with its views on the value of GeoResources from a net asset value perspective.

More recently, since April 2011 GeoResources management team has held 26 meetings with investment bankers and financial advisors to discuss capital markets opportunities, strategic alternatives, potential acquisitions, and merger and/or sale opportunities. These activities included both detailed discussions of potential transactions in which the company may have been sold and potential transactions in which GeoResources would be the surviving entity. GeoResources board of directors actively monitored these discussions and periodically questioned management regarding the various potential transactions and alternatives being considered. Also, various members of GeoResources management, either individually or collectively, have had a number of additional informal conversations with investment bankers, institutional investors and others regarding these topics. These and earlier discussions resulted in GeoResources signing numerous confidentiality agreements with parties that had expressed interest in discussing a possible transaction with GeoResources. These activities resulted in the execution of two non-binding letters of intent in 2011, one with Company A during the spring of 2011 and one with Company B during the summer of 2011, each of which related to merging GeoResources with or into the other company. Discussions with both Company A and Company B did not evolve into definitive agreements but did involve significant diligence reviews of GeoResources assets and prospects and the active overview and involvement of the full board, as well as advanced negotiations concerning the valuation of GeoResources. The valuations of GeoResources by Companies A and B were substantially below the valuation implied for GeoResources in the merger discussed in this joint proxy statement/prospectus. These recent in-depth discussions and negotiations, in addition to management s ongoing dialogue with investment bankers, advisors and other industry experts, have provided GeoResources management and board with substantial information regarding the current value of GeoResources to a potential buyer and with extensive knowledge of the potential parties likely to be interested in a change of control transaction with GeoResources that could possibly benefit its stockholders. Despite not agreeing to a transaction with Company A or Company B, management of GeoResources still believed that a negotiated transaction provided a better avenue for maximizing stockholder value and liquidity as opposed to an auction and it conveyed this conviction to GeoResources board of directors. Mr. Lodzinski informed the board that, based on his 40 years of experience in buying and selling oil and gas assets and companies, an auction was not the optimal way to realize maximum stockholder value and that a failed auction could severely impair a company s ability to raise capital, market itself or its properties in the foreseeable future.

In the course of GeoResources market checking activities discussed above, management became aware of Halcón and its business plans in late 2011. On or about December 22, 2011, Mr. Lodzinski learned that Floyd C. Wilson, former CEO of Petrohawk Energy Corporation, a company sold in mid-2011 to a subsidiary of BHP Billiton Limited for approximately $15 billion, was in the process of acquiring a substantial equity stake in and recapitalizing RAM Energy Resources, Inc. (later renamed Halcón Resources Corporation), a publicly traded oil and gas company for the purpose of building a resource powerhouse focused on opportunities within domestic oil and hydrocarbon liquids-rich resource plays. GeoResources management team was aware of Mr. Wilson s impressive prior track record of building substantial positions in major oil and gas resource plays and creating stockholder value, most recently with Petrohawk Energy Corporation, and was further attracted to Mr. Wilson s strategic vision which, in many respects, resembled that of GeoResources, but possessed the added capabilities of Halcón management and technical personnel to create greater scale, capital formation ability and project diversity in a number of potentially high impact resource plays. Because of these reasons, GeoResources management team believed that a potential transaction with Halcón warranted further investigation.

On December 22, 2011, Mr. Lodzinski contacted Michael W. Mitchell, Senior Managing Director of Mitchell Energy Advisors, LLC, a financial advisory firm representing Halcón, and inquired whether Mr. Wilson might be interested in discussing possible business opportunities with GeoResources. Shortly thereafter, Mr. Mitchell indicated that Mr. Wilson would be interested in meeting with Mr. Lodzinski and, on or about December 27, 2011 Mr. Lodzinski sent a form of confidentiality agreement to Mr. Mitchell pursuant to which Halcón and GeoResources would be able to provide one another with detailed, nonpublic information. Thereafter, provisions of the confidentiality agreement were negotiated and it was signed on January 6, 2012. In addition to confidentiality provisions, the agreement included a standstill provision pursuant to which each party generally agreed to refrain from otherwise acquiring an interest in, and taking certain other actions with respect to, the other party, except in connection with a negotiated transaction.

On January 19, 2012, Mr. Lodzinski, accompanied by Robert Anderson, EVP Engineering and Acquisitions, Chief Operating Officer Northern Region and a director of GeoResources, and Quentin Hicks, Director of Acquisitions and Financial Planning for GeoResources, met with Mr. Wilson and Mr. Mitchell to discuss opportunities to work together, including a potential combination of the companies. On January 21, 2012, Mr. Lodzinski informed the board of directors of GeoResources regarding the meeting with Mr. Wilson and provided them with summary background information relating to the sale of Petrohawk Energy Corporation in 2011 and Mr. Wilson s subsequent activities with Halcón.

On January 23, 2012, Mr. Wilson sent correspondence to Mr. Lodzinski, indicating interest in exploring a cash and stock acquisition of GeoResources by Halcón. That day, Mr. Lodzinski held various phone conversations with members of the GeoResources board to discuss the advantages and disadvantages of a potential transaction with Halcón and also provided the GeoResources board of directors and outside counsel with an overview of Halcón prepared by Mitchell Energy Advisors, LLC, along with his preliminary thoughts on a potential transaction.

On January 26, 2012, Mr. Lodzinski met with Mr. Wilson and Mr. Mitchell at Halcón s offices to discuss a potential transaction between the parties. On January 29, 2012 Mr. Lodzinski and Mr. Wilson exchanged correspondence related to arranging a meeting the following week. A subsequent meeting was held on February 1, 2012. Topics discussed at these meetings included the strategic plans of Halcón, the type and mix of consideration that an acquisition of GeoResources might involve, potential representation of GeoResources stockholders on the board of directors of Halcón, personnel needs of the combined company and transaction timing. Mr. Lodzinski suggested that a meeting of Mr. Wilson and outside directors of GeoResources should follow.

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A telephonic meeting of GeoResources board of directors was held on February 10, 2012, with GeoResources outside counsel, Jones & Keller, to discuss a potential transaction with Halcón. The board and management discussed the merits of considering a business combination with Halcón for the benefit of GeoResources stockholders. Current profitability and liquidity of both companies and relative stock prices were discussed. During the meeting, Mr. Lodzinski expressed his view that gaining size and scale were becoming increasingly important factors for success in building, developing and operating resource plays because size and scale allow operators to more effectively compete for prospects, services, acquisitions, capital and personnel. Although both companies utilize the same general operating strategy, Mr. Lodzinski noted that the current deals in the public arena are getting large (in the multi-billions of dollars, with smaller deals being in the hundreds of millions) compared to the financial resources of GeoResources and there is clearly an economic advantage to size and scale of business. The board discussed the general parameters of a possible combination with Halcón, the elements of possible consideration to be paid consisting of cash, Halcón common stock or a combination thereof. The board also discussed the business benefits of a combination of both companies, the direct benefits to GeoResources stockholders and the key strategic and business issues that GeoResources management should address in subsequent meetings with Halcón, including:

- Further discussion of Halcón s near and long-term asset strategy including:
  - Halcón s future plans for acreage, asset and/or company acquisitions;
  - A more detailed understanding of the key aspects of future targeted areas for Halcón s growth, including oil/liquids bias, conventional/unconventional prospects, and geographic areas of focus;
  - A more detailed understanding of Halcón s processes for identifying areas to lease within new prospective plays, including the geologic and technical information and processes underlying its target areas;
  - Halcón s plans to finance its acquisition strategy and growth.
- The status and nature of any acquisition discussions Halcón was having with other companies;
- Details of Halcón s management, technical and operational staff and information regarding their ability to execute Halcón s strategy;
- Halcón s expectations regarding the effect that the mergers and acquisitions market and commodity prices might have on its strategy;
- Information regarding Halcón s current liquidity and near-term capital plans and financing strategies;
- Whether the properties of GeoResources fit within the radius of Mr. Wilson s non-compete agreement with Petrohawk Energy Corporation;
- When will the current Halcón additional information relating to Halcón s oil and natural gas reserves, including obtaining a copy of its December 31, 2011 reserve report be available
- Further detail regarding the process and timing of a possible transaction between the companies; and

Clarification of the current ownership structure of Halcón.

GeoResources board of directors considered at the meeting and ultimately determined that a special committee of its board of directors to negotiate and oversee the transaction on behalf of the entire board was not necessary or warranted under the circumstances. In reaching its determination, the board considered that neither Mr. Lodzinski nor Mr. Anderson had any current intention of entering into an employment agreement or remaining employed with Halcón beyond any required transition period after the merger and that each held a significant amount of GeoResources common stock, along with some of the other independent board members, which directly aligned their interests with other GeoResources stockholders. Also, the change-in-control payments of each of Messrs. Lodzinski and Anderson were well below the peer group of GeoResources and a fraction of the consideration that each person would receive in a merger transaction due to his stock ownership in GeoResources. Moreover, the substantial business and financial experience and unique perspectives of each member of GeoResources board coupled with the active involvement of the independent members of the board

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in the process, led the board to conclude that GeoResources stockholders would best be served by the entire board s participation in the process, including Messrs. Lodzinski and Anderson, rather than just two or three directors. All of the directors indicated they intended to be engaged and devote the required time to the effort to reach a transaction beneficial to GeoResources stockholders.

On February 13, 2012, the independent board members of GeoResources, other than Mr. Voller, continuing to be significantly involved in the possible transaction with Halcón, met with Mr. Wilson and Mark Mize, Halcón s Executive Vice President and Chief Financial Officer, in New York, New York. The meeting focused primarily on Mr. Wilson s history in the oil and gas business, his strategy and vision for Halcón and his perspective on how GeoResources fit with Halcón s business strategy. The independent directors of GeoResources discussed, and Mr. Wilson addressed, many of the issues raised by the GeoResources board in its February 10, 2012 telephonic meeting. Mr. Wilson outlined Halcón s business strategy of selectively accumulating significant acreage positions in certain oil and liquids-rich resource plays, recruiting talented employees and using the expertise and technology developed by Halcón s geological and technical teams to efficiently develop Halcón s acreage positions. Mr. Wilson gave an overview of the resource plays that Halcón was focusing on and also discussed Halcón s oil and gas hedging philosophy as well as processes for finding and developing assets prospective for oil and natural gas.

On February 14, 2012, Messrs. Lodzinski, Anderson and Hicks held a conference call with all of the independent directors of the GeoResources board for the purpose of soliciting their assessment of their meeting with Mr. Wilson and Mr. Mize the day before. The board members conveyed their interest in the benefits that a combination with Halcón might bring to the stockholders of GeoResources. These benefits included larger size and scale of the combined company to pursue liquids-rich resource plays and asset diversification, as well as the benefit of Mr. Wilson s capabilities and a highly competent technical team. The board discussed with Mr. Lodzinski a strategy of pursuing part cash, part stock in a possible business combination with Halcón. Accordingly, the board advised management to continue to gather and evaluate information and pursue the potential combination.

The next day, February 15, 2012, the management teams of GeoResources and Halcón met in Houston, Texas, along with representatives of Mitchell Energy Advisors, LLC, to discuss Halcón s oil and gas leasing activities, its plans for equity financing, due diligence protocol and preliminary deal terms. GeoResources management team indicated that they were interested in discussing a part cash and part Halcón stock transaction, perhaps 50% cash and 50% common stock, subject to tax advice. The management team noted that such a structure would provide GeoResources stockholders with a combination of immediate liquidity as well as the opportunity to participate in the combined company s growth and share appreciation. Mr. Wilson indicated that Halcón management would be interested in such a transaction with a premium to the GeoResources stock price of around 20%, which equated to $36.50 per share of GeoResources common stock, at the time, based on its 30-day average trading price as of February 14, 2012. GeoResources management indicated that a premium approaching $40 per share of GeoResources common stock was warranted. Other deal terms and issues discussed at the meeting included the measurement date for the stock portion of the consideration, whether the stock portion of the consideration would be fixed or floating, representation of GeoResources stockholders on the Halcón board of directors and employee matters.

On February 16, 2012, prior to a GeoResources board meeting scheduled for later in the day, Mr. Lodzinski forwarded a summary to the members of the GeoResources board of directors and outside counsel with respect to the management team s meeting the day before with Mr. Wilson and his team. Mr. Lodzinski s report included the following parameters of a transaction arising out of discussions with Halcón:

- consideration of 50% cash and 50% Halcón common stock, subject to the advice of tax counsel;

- an exchange ratio for the share component of the consideration of approximately 1.9 Halcón shares of common stock for each share of GeoResources common stock, which was based on current and 30-day trading levels of the common stock of each company;

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- a fixed exchange ratio;
- the potential for at least one board seat on the combined company s board; and
- GeoResources would be collecting data, continuing the diligence review of Halcón and analyzing and discussing issues with legal counsel and hiring financial advisors.

Later that day the GeoResources board of directors held a telephonic meeting with outside counsel, with Mr. Whelley being the only member not present. The board discussed the deal parameters with management and authorized management to proceed to a term sheet or letter of intent embodying the preliminary terms discussed by the respective management teams. The board also discussed involvement of outside counsel and considered financial advisors to represent GeoResources in the possible transaction.

On March 1, 2012, the management team of GeoResources had a lengthy meeting with Halcón s management and technical team to conduct a detailed review of the existing properties and other assets of GeoResources. Thereafter the parties began to conduct extensive due diligence on one another.

On March 2, 2012, Halcón convened a regularly scheduled meeting of its board of directors. A portion of the meeting was devoted to a management status report on the various acquisitions being pursued by Halcón. During this portion of the meeting, Mr. Wilson provided the board with an overview of the discussions that had taken place with GeoResources, along with estimated pro forma financial, operating and liquidity information for the combined companies and management s preliminary valuation estimates assuming Halcón common stock comprised 50% of the transaction consideration. Mr. Wilson stated that management was engaged in preliminary technical diligence on GeoResources properties and would provide the board with additional information as diligence and transaction discussions progressed.

On March 8, 2012, GeoResources management and technical team had a lengthy meeting with representatives of Halcón to conduct a detailed review of the Halcón s oil and gas properties as well as its targeted areas of growth. This meeting included in depth discussion of the technical merits of each of Halcón s targeted focus areas. Representatives of Wells Fargo Securities, LLC (Wells Fargo Securities) also attended the meeting on behalf of GeoResources. GeoResources management requested that Halcón provide further technical data regarding Halcón s properties.

Also on March 8, 2012, Mr. Lodzinski sent correspondence to the GeoResources board and outside counsel providing an update on the status of discussions with Halcón and an overview of Halcón s oil and gas projects. Mr. Lodzinski again updated the GeoResources board and outside counsel on March 14, 2012, as the management teams of each company were continuing to review each other s properties and oil and gas reserves. On March 18, 2012 Mr. Lodzinski provided the GeoResources board members and outside counsel with a written presentation outlining the technical merits of Halcón s current assets and its targeted areas for growth, including a summary of Halcón s drilling plans, capitalization, liquidity and financial forecast.

On March 20, 2012, Mr. Lodzinski and Mr. Wilson conferred by telephone. Mr. Wilson indicated that to induce Halcón to incur the necessary expenditures of time and money to continue pursuing a transaction with GeoResources, Halcón would request that GeoResources execute a 30-day exclusivity agreement with Halcón during which due diligence activities would be expanded and the terms and conditions of a proposed transaction could be thoroughly negotiated. A draft of the exclusivity agreement was sent by Halcón to Mr. Lodzinski that day. Mr. Wilson also indicated that Halcón would be sending a letter to GeoResources outlining a proposal for Halcón to acquire all of the outstanding common stock of GeoResources in exchange for cash and Halcón common stock. Mr. Lodzinski subsequently informed the GeoResources board of directors of these developments.

On March 23, 2012, Mr. Wilson sent a draft non-binding letter to Mr. Lodzinski expressing Halcón s interest in an acquisition of all of the outstanding common stock of GeoResources for consideration consisting of $20.00 per share in cash plus a fixed number of Halcón common shares equal in value to $20.00, determined on the basis of the average trading prices of Halcón common stock for the 30 trading days preceding the date of the letter. The implied number of shares of Halcón common stock set forth in the letter was 1.826 based upon the average trading prices of Halcón common stock set forth in the letter.

On March 26, 2012, GeoResources board and management held a telephonic conference call with outside counsel to discuss the proposed exclusivity agreement and the non-binding letter of interest. The GeoResources board approved the exclusivity agreement and authorized Mr. Lodzinski to execute it and proceed with negotiations with Mr. Wilson.

Mr. Lodzinski and Mr. Wilson spoke by telephone on March 27, 2012 and discussed the proposed transaction in greater detail. After discussion, Mr. Wilson agreed that the stock component of the consideration would be determined using the average trading prices of Halcón stock for the 20 trading days ended March 22, 2012, which equated to 1.893 shares of Halcón common stock for each share of GeoResources common stock. On March 28, 2012, Mr. Wilson sent Mr. Lodzinski a revised non-binding letter of interest reflecting the foregoing. Mr. Lodzinski forwarded an executed copy of the exclusivity agreement later that day to Mr. Wilson, informing Mr. Wilson of GeoResources desire to move forward with the proposed transaction while also indicating that the number of shares of Halcón stock referenced in the letter remained subject to further consideration and discussion.

Also on March 28, 2012, Halcón sent a package of information relating to GeoResources and the proposed transaction to the members of Halcón s board of directors. The package included publicly available information regarding GeoResources and a report generated by management of Halcón covering proposed terms of the transaction, production and reserve data for GeoResources and pro forma production, reserve, capital expenditures, and capitalization and liquidity data for the combined companies. The package also included a preliminary report generated by Barclays Capital, Inc., that included valuation analyses of GeoResources and analyses of the proposed business combination. Barclays had been frequently relied upon by Halcón to provide advice and analyses in connection with its business plans and objectives and had recently acted as a joint placement agent for Halcón in a $400 million private placement of Halcón s convertible preferred equity securities.

Beginning on March 29, 2012, the respective management teams of GeoResources and Halcón intensified their legal, accounting, environmental, business and engineering due diligence activities. Throughout the discussions and negotiations with Halcón, the GeoResources board was provided with various financial and market analyses as information was accumulated.

On April 3, 2012, after several discussions beginning on February 22, 2012, and follow up correspondence among the GeoResources board, outside counsel and Mr. Lodzinski during the preceding several days, GeoResources engaged Wells Fargo Securities as its financial advisor with respect to the potential transaction with Halcón. Prior thereto, the board was made aware that a Wells Fargo Securities affiliate was part of a commercial banking syndicate that had extended a credit facility to Halcón. The affiliate had also acted in an administrative capacity in connection with the loan and a lead bank in Halcon s commercial banking syndicate. Wells Fargo Securities also informed GeoResources that no managing director, director or vice president of Wells Fargo Securities who is actively advising GeoResources pursuant to the engagement has, or at the time Wells Fargo Securities delivers a fairness opinion in connection with the potential merger, will have, any direct material beneficial ownership of equity or debt securities of Halcón. The GeoResources board discussed the issues and concluded that the affiliate s commercial banking services did not impair the independence of Wells Fargo Securities as its financial advisor in the proposed transaction. Information concerning Wells Fargo Securities engagement, the work it undertook and its conclusions are described under The Merger Opinion of Wells Fargo Securities to the GeoResources Board of Directors and in Annex E Opinion of Wells Fargo Securities, LLC.

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On April 4, 2012, the management teams of GeoResources and Halcón, counsel to GeoResources, and Thompson & Knight LLP, counsel to Halcón, began the process of negotiating the merger agreement, including the mutual representations and warranties of the companies, covenants and conditions to closing, nonsolicitation provisions and exceptions, fiduciary outs for alternative and superior proposals and termination fees and expenses. A first draft of the merger agreement was sent to GeoResources and its counsel on April 4, 2012. The draft merger agreement included, among other material provisions, a stock component of the merger consideration equal to 1.893 shares of Halcón common stock for each share of GeoResources common stock and a termination fee equal to 4% of the equity value of GeoResources, as reflected in the merger consideration. The final provisions of the merger agreement are discussed under The Merger Agreement.

On April 5, 2012, counsel to Halcón forwarded a form of voting agreement to counsel for GeoResources, indicating that voting agreements in substantially the form proposed would be required of officers and directors of GeoResources, and certain of their affiliates, as a condition to the execution of the merger agreement.

On April 9, 2012, the GeoResources board of directors met telephonically with outside counsel and representatives of Wells Fargo Securities present to discuss the proposed transaction structure with Halcón and associated issues. All directors were present, other than Mr. Voller and Mr. Vlasic. The terms of the merger agreement draft of April 4^{th} were discussed including treatment of stock options, warrants and restricted stock units of GeoResources, tax treatment of the stock and cash components of the merger consideration, treatment of dissenting shareholders to the merger, procedures for the exchange of shares, the desire of GeoResources for representation on the board of directors of Halcón, representations and warranties in the merger agreement, the fiduciary out section of the merger agreement and GeoResources conduct of activities prior to closing of the merger. Outside counsel to GeoResources provided an overview of the proposed merger transaction and process for the GeoResources board to consider the merger and the merger agreement. Management informed the board of progress on its due diligence of Halcón.

On or about April 9, 2012, Halcón and four GeoResources directors, three non-director executive officers of GeoResources and their respective affiliates began negotiating customary voting agreements under which the stockholders agreed to vote their shares of GeoResources common stock for the merger agreement and the merger. These shares are in the aggregate approximately 17% of the outstanding shares of GeoResources common stock. Negotiations ensued until the voting agreements were signed on April 24, 2012. GeoResources also obtained a voting agreement committing HALRES, Halcón s largest shareholder owning approximately 51% of the outstanding shares of Halcón common stock, to vote in favor of the issuance of shares of Halcón common stock necessary to consummate the merger. See Voting Agreements.

On April 10, 2012, counsel to GeoResources sent a revised merger agreement to counsel to Halcón. The revised merger agreement included, among other changes: lowering the termination fee to be paid by GeoResources from 4% to 2%; eliminating the payment of the termination fee under certain circumstances; modifying the definition of Superior Proposal to improve the ability of GeoResources board of directors to consider and pursue alternative transactions in the event they offered greater value to the stockholders of GeoResources; adding the obligation of Halcón to appoint two representatives of the stockholders of GeoResources to the board of directors of Halcón; and including a provision that would allow the board of directors of GeoResources to change its recommendation in favor of the proposed transaction if certain unforeseen circumstances were to occur.

On April 11, 2012, management of Halcón and GeoResources and their respective legal and financial advisors met to negotiate the provisions of the merger agreement and to discuss ancillary issues relating to the transaction and its potential timing. Later that day, counsel to Halcón delivered a draft confidential information, non-competition and non-solicitation agreement, indicating that Halcón would require that Mr. Lodzinski execute such an agreement as a condition to the execution of the merger agreement.

Also, on April 11, 2012, Halcón notified GeoResources that the non-compete covenant contained in a retention agreement between Mr. Wilson and his former employer, Petrohawk Energy Corporation, could require

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that Halcón divest certain oil and gas properties acquired in the merger from GeoResources in the Eagle Ford shale in Texas which lie within a 50-mile radius of properties owned by Petrohawk Energy Corporation. See The Merger Agreement Possible Disposition of Certain Properties. While management of GeoResources had previously considered this possibility, over the next several days, the management team and board of GeoResources as well as Wells Fargo Securities, considered the effect, if any, that the sale of the Eagle Ford properties would have on the combined entity and whether a sale of the Eagle Ford properties on a stand-alone basis would result in a materially higher valuation than their implied value given the total consideration being provided to the GeoResources stockholders pursuant to the merger agreement. GeoResources analysis, supported in part by work performed by Wells Fargo Securities, concluded that the Eagle Ford properties were fully valued as part of the total merger consideration and the Eagle Ford holdings would be less than 10% of the combined entity s assets.

On April 12, 2012, as one of their continued actions to ensure the overall integrity of the process used in determining whether to recommend the proposed merger to GeoResources stockholders, the GeoResources independent board members engaged an experienced Houston-based law firm, Baker Botts, LLP, to further advise them in connection with the proposed transaction. The draft merger agreement and other documents were provided to Baker Botts, LLP and most of the independent directors met telephonically with them on April 13th and April 16th prior to their approval of the merger.

From April 11, 2012 through April 13, 2012, the parties and their respective counsel continued to negotiate the provisions of the merger agreement. During this period, the termination fee and the circumstances under which it would be paid to Halcón were, among other matters, the subject of negotiation. During this period, GeoResources also indicated that it would require that it have the right to terminate the merger agreement in the event of Mr. Wilson s death or disability. On April 13, 2012, counsel to Halcón circulated a revised version of the merger agreement that, among other things, reduced the termination fee to 2.75%, expanded the circumstances under which the termination fee would be payable beyond those in the draft merger agreement previously delivered by GeoResources, eliminated the ability of the board of directors of GeoResources to change its recommendation in favor of the proposed merger on the basis of an unforeseen intervening event as had been reflected in the draft merger agreement previously delivered by GeoResources, and provided for the appointment of one individual designated by GeoResources (and acceptable to Halcón) to Halcón s board of directors.

On April 13, 2012, the board of directors of GeoResources met telephonically with management, outside counsel and representatives of Wells Fargo Securities to receive an update from Mr. Lodzinski with respect to the potential transaction with Halcón and to receive a legal overview of the merger agreement from outside counsel. Additionally, Wells Fargo Securities discussed the proposed transaction and related matters. Mr. Lodzinski provided an overview and summary comments regarding the status of due diligence and the progress Halcón had made in its oil and gas leasing activities and the board discussed with Wells Fargo Securities the value that might be obtained in the event the company s Eagle Ford properties were sold. Outside legal counsel discussed the draft merger agreement with the board, addressing the structure, employee provisions, representations and warranties, conditions to closing, conduct of business until closing, as well as an in-depth discussion of the non-solicitation and fiduciary out provisions of the merger agreement, including the ability of third party bidders to submit a potentially superior proposal for GeoResources. Also, legal counsel discussed with GeoResources directors the applicable legal standards in considering the merger agreement and its associated transactions, in particular, GeoResources directors duties of care and loyalty, to act in good faith and in the best interests of stockholders as a whole and to be reasonably informed of relevant factors before making a decision. Also discussed was the probable tax treatment of the merger to the stockholders of GeoResources and the status of tax representations in the draft merger agreement.

Also on April 13, 2012, the board of Halcón met telephonically with management, outside counsel and representatives of Barclays. At the meeting, management of Halcón provided an overview of the transaction process and timing; Halcón s management and counsel provided a comprehensive report on diligence activities and findings; and Halcón s counsel provided a status report on the negotiation of significant terms of the draft merger agreement. A significant portion of the meeting was devoted to a presentation by Barclays and its analyses with respect to the valuation of GeoResources and the combined companies. At the meeting, Halcón s board of directors also authorized management to specifically engage Barclays to provide further advice and analysis regarding the transaction and, in the event the transaction continued to move forward, to render an opinion to the board regarding the fairness, to Halcón, of the consideration to be paid by it to the stockholders of GeoResources in the transaction. Information concerning Barclay s engagement, the work it undertook and its conclusions are described under The Merger Opinion of Barclays to the Halcón Board of Directors and in Annex D Opinion of Barclays Securities, Inc.

On April 14, 2012, the GeoResources board of directors met telephonically with outside counsel and representatives of Wells Fargo Securities who presented preliminary financial analyses of the proposed transaction and discussed strategic matters. Wells Fargo Securities representatives also proceeded to discuss the potential merger benefits, which included among other things, a discussion of the combined entity s asset base (including increased scale and a foothold in a number of liquid-rich plays), financial flexibility, management and technical teams, the ability of GeoResources to nominate a person to the Halcón board, and the opportunity for GeoResources to entertain a higher bid from another interested acquirer given the current fiduciary out language in the merger agreement. Wells Fargo Securities also discussed the potential for additional institutional investor interest in the combined entity compared to such interest in GeoResources on a stand-alone basis. In addition, Wells Fargo Securities and the outside counsel of GeoResources then reviewed with the GeoResources board the board representation rights and termination fee provisions that were being negotiated between GeoResources and Halcón. As a final matter, the independent members of the board directed Mr. Lodzinski to seek to negotiate a higher stock exchange ratio.

On April 16, 2012 the GeoResources board of directors met again telephonically with outside counsel and representatives of Wells Fargo Securities to review information provided by Wells Fargo Securities in response to various questions posed by the GeoResources board relating to the preliminary analyses provided by, and discussions with Wells Fargo Securities on April 14, 2012.

On April 19, 2012 the management teams of GeoResources and Halcón met to discuss the status of the merger agreement and related issues, during which the parties renegotiated the share exchange ratio upward to 1.932 shares of Halcón common stock for each share of GeoResources common stock, an increase from the prior exchange ratio of 1.893 shares Halcón common stock for each share of GeoResources common stock. Later that day, a telephonic meeting of the GeoResources board of directors was held, with outside counsel and representatives of Wells Fargo Securities present, for the purpose of providing a status report on the merger agreement and outstanding issues to the board. Wells Fargo Securities also provided an oral update of its preliminary financial analyses and discussions with the board on April 14, 15 and 16 and indicated that it would be in a position, if requested, to advise the GeoResources board of directors as to its opinion on the fairness of the merger consideration, from a financial point of view, to be paid to the holders of the GeoResources common stock (other than Halcón and its affiliates) in the next few days. On April 20, 2012, Wells Fargo Securities reviewed with the GeoResources board and outside counsel information regarding pro forma capitalization and liquidity of the combined entity, premiums paid for past transactions as well as information regarding pricing differentials relating to the major areas of operations of GeoResources and Halcón. On April 22, 2012, Wells Fargo Securities reviewed with GeoResources board and outside counsel updated capitalization and liquidity information in response to follow up questions from the GeoResources board.

Concurrently during this period, outside counsel to GeoResources and Halcón exchanged several drafts of the merger agreement, each time narrowing the legal issues separating the parties.

On April 23, 2012, the GeoResources board of directors again met telephonically with outside counsel and representatives of Wells Fargo Securities to receive Wells Fargo Securities financial analyses of the proposed transaction. Wells Fargo Securities provided a written presentation relating to its proposed fairness opinion, which presentation included an overview of GeoResources and Halcón and financial analyses with respect to both companies and reviewed in detail its draft form of fairness opinion, which is based on and subject to various assumptions made, procedures followed, matters considered and limitations on the review undertaken by Wells Fargo Securities in connection with such opinion. More information regarding Wells Fargo Securities financial analyses and fairness opinion is set forth herein under The Merger Opinion of Wells Fargo Securities to the GeoResources Board of Directors. Wells Fargo Securities delivered its oral opinion that the merger consideration is fair, from a financial point of view, to the stockholders of GeoResources (other than Halcón and its affiliates) and stated that a written opinion, confirming its oral opinion, would be forthcoming at execution of the merger agreement. The status of the final negotiations of the merger agreement was reviewed and the board determined that the issues in the merger agreement had been resolved to their satisfaction. The GeoResources board of directors unanimously: (i) authorized management to execute the merger agreement substantially in the form presented to the board; (ii) approved the merger and merger agreement; and (iii) recommended that the merger agreement be submitted to the GeoResources stockholders for approval in accordance with the provisions of the merger agreement.

On April 24, 2012, a telephonic meeting of the board of directors of Halcón was convened, at which Halcón management and counsel provided an update on the status of diligence and merger agreement provisions to the Halcón board of directors, and Barclays provided an updated presentation relating to GeoResources and the proposed transaction, including updated analyses relating to the valuation of GeoResources and the combined companies. At the meeting, Barclays delivered its oral opinion, which was subsequently confirmed in writing, that the proposed transaction with GeoResources was fair from a financial point of view to Halcón and the stockholders of Halcón. Following the conclusion of the presentations, the board of directors of Halcón unanimously authorized management to execute the merger agreement substantially in the form presented to the board; approved the merger and merger agreement; and recommended that Halcón s stockholders approve the issuance of the common stock of Halcón in the merger, in accordance with the rules of the New York Stock Exchange.

The merger agreement was signed by Halcón and GeoResources on April 24, 2012. At 6:30 a.m. central time on April 25, 2012, Halcón and GeoResources issued a joint press release announcing the proposed merger. On April 25, 2012, each of Halcón and GeoResources filed a current report on Form 8-K with the SEC regarding the execution of the merger agreement.

Recommendation of Halcón s Board of Directors and Reasons for the Merger

Halcón s board of directors has determined that the merger is fair to, and in the best interests of, Halcón and its stockholders. In deciding to approve the merger agreement and to recommend that Halcón s stockholders vote to approve the issuance of shares of Halcón common stock in connection with the merger, Halcón s board of directors consulted with Halcón s management and legal and financial advisors and considered a variety of factors, including the following material factors:

- The combination will increase estimated proved reserves to approximately 50.3 MMboe, 70% of which is oil and natural gas liquids.

- The combination will increase average net daily production to approximately 10,200 Boe, based on fourth quarter 2011 production rates.

- The merger will provide Halcón with a larger portfolio of exploitation and exploration opportunities in liquids prone resource plays within areas targeted by Halcón.

- The merger will significantly increase Halcón s discretionary cash flow on a per share basis and should permit an acceleration of Halcón s capital program.

- The merger will create a larger company that is expected to have more liquidity in its common stock and better access to capital markets, which should provide greater financial flexibility.

- The combined company will have properties that should be attractive candidates for divestment, and the proceeds from such sales will provide Halcón with greater financial flexibility.

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Halcón s board of directors considered a number of additional factors in reaching its decision including:

Information concerning the financial condition, results of operations, prospects and businesses of Halcón and GeoResources, including the respective companies reserves, production volumes, cash flows from operations, recent performance of common stock and the ratio of Halcón s common stock price to GeoResources common stock price over various periods, as well as current industry, economic and market conditions.

The results of business, legal and financial due diligence investigations of GeoResources conducted by Halcón s management and its legal and financial advisors.

The presentation and opinion of Barclays to the effect that, as of the date of the opinion and based on the assumptions, limitations, qualifications and conditions stated in the opinion letter, from a financial point of view, the merger consideration was fair to Halcón.

Halcón s board of directors also considered a variety of risks and other potentially negative factors concerning the merger and the transactions contemplated by the merger agreement, including:

Because Halcón will be issuing new shares of common stock to GeoResources stockholders in the merger, each outstanding share of Halcón common stock immediately prior to the merger will represent a smaller percentage of Halcón s total shares of common stock after the merger.

If oil or gas prices decrease, the acquired assets will be less desirable from a financial point of view, and the expected proceeds from potential divestitures would also be reduced.

There are significant risks inherent in combining and integrating two companies, including that the companies may not be integrated successfully and that successful integration of the companies will require the dedication of significant management resources, which will temporarily detract attention from the day-to-day businesses of the combined company.

The capital requirements necessary to achieve the expected growth of the combined company s businesses will be significant, and there can be no assurance that the combined company will be able to fund all of its capital requirements from operating cash flows.

The merger might not be completed as a result of a failure to satisfy the conditions contained in the merger agreement. Neither Halcón nor GeoResources is obligated to consummate the merger unless the conditions in the merger agreement are satisfied or, in some cases, waived.

Other matters described under the caption Risk Factors.

This discussion of the information and factors considered by Halcón s board of directors in reaching its conclusions and recommendations includes all of the material factors considered by the board but is not intended to be exhaustive. In view of the wide variety of factors considered by Halcón s board of directors in evaluating the merger agreement and the transactions contemplated by it, including the merger, and the complexity of these matters, Halcón s board of directors did not find it practicable to, and did not attempt to, quantify, rank or otherwise assign relative weight to those factors. In addition, different members of Halcón s board of directors may have given different weight to different factors.

It should be noted that this explanation of the reasoning of Halcón s board of directors and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading Cautionary Statement Concerning

Forward-Looking Statements beginning on page of this document.

Halcón s board of directors determined that the merger, the merger agreement and the other transactions contemplated in the merger agreement are fair to, and in the best interests of Halcón and its stockholders. Accordingly, Halcón s board of directors unanimously approved the merger agreement and recommends that Halcón stockholders vote FOR the proposals set forth in the notice of special meeting.

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Recommendation of GeoResources Board of Directors and Reasons for the Merger

After careful consideration, the GeoResources board of directors unanimously approved and adopted the merger agreement, the merger and the other transactions contemplated by the merger agreement and determined that the merger agreement, the merger and the other transactions contemplated by the merger, taken as a whole, are advisable, fair to and in the best interests of GeoResources and its stockholders. The GeoResources board of directors unanimously recommends that GeoResources stockholders vote FOR the proposal to approve and adopt the merger agreement.

In reaching its decision that the merger and the other transactions contemplated by the merger agreement, taken as a whole, are advisable, fair to and in the best interests of GeoResources and its stockholders, the GeoResources board of directors consulted with GeoResources management and its third party legal and financial advisors and considered a variety of factors, including the following material factors:

- the current and historical prices of GeoResources common stock relative to its underlying intrinsic value and the fact that the proposed merger consideration represented a premium of approximately 23% based on the closing prices of GeoResources and Halcón on the last trading day prior to execution of the merger agreement on April 24, 2012 and approximately 19% based on closing prices of GeoResources and Halcón s common stock over the 30-day trading period ending on such date;

- through their receipt of Halcón common stock as part of the merger consideration, GeoResources stockholders have the opportunity to participate in Halcón s growth and share appreciation in the future (including share appreciation resulting from further exploitation and development from GeoResources assets) should they determine to retain their Halcón common stock after the merger;

- GeoResources board of directors also considered that the structure of the merger consideration would be desirable to its stockholders in that it would provide immediate cash liquidity of $20.00 per share of GeoResources common stock and the opinion of GeoResources outside legal counsel that the stock portion of the merger consideration should be received on a tax-deferred basis;

- the importance of increased operating scale and size in successfully growing, developing and operating a large geographically diverse resource play focused company in today s oil and gas industry. GeoResources board recognized that scale and size have become increasingly important in securing access to services and equipment, sourcing acquisitions, developing infrastructure, attracting necessary debt and equity capital and attracting and retaining quality technical and operating personnel. The Board believes the merger with Halcón will provide the opportunity for growth and related benefits of scale faster in the combined entity than GeoResources could attain if it were to continue growing as a stand-alone entity;

- the board s belief that Halcón s strategy in addition to its quality management team, which possesses deep technical expertise and a proven ability to successfully develop resource plays, will create substantial value from the combined entity s assets which will benefit GeoResources stockholders to the extent they retain the stock component of such consideration;

- the prospects and challenges for GeoResources continued growth and future profitability and the risks associated with maintaining such growth and profitability, particularly the need to finance increasingly larger and more complex acquisition and development activities and the risk that either equity or debt financing to achieve its historic growth rates could be dilutive or unavailable on terms advantageous to GeoResources;

- the combined entity s larger market capitalization and its expected enhanced access to debt and equity capital markets, which GeoResources board of directors believes will enhance the ability to finance development and production of the combined entity s increased scale of operations;

the fact that Halcón is in the early to mid-stage of its acreage acquisition programs and will require expanded staffing to pursue its exploration, development and production activities possibly creating longer-term opportunities for GeoResources staff personnel who will receive retention agreements that

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provide for a severance plan which includes a lump sum payment based on the number of years of service, reimbursement of COBRA premiums and provisions for outplacement services;

current industry, economic and market conditions and the understanding of the GeoResources board of directors of the present and anticipated environment in the independent exploration and production sector of the energy industry, including the continuing consolidation within the sector;

the opinion of Wells Fargo Securities, as of the date thereof and based on the assumptions, limitations, qualifications and conditions stated in the opinion letter, as to the fairness, from a financial point of view, of the merger consideration to be received by holders of GeoResources common stock (other than Halcón and its affiliates) pursuant to the merger agreement, as more fully described below under the caption Opinion of Wells Fargo Securities to the GeoResources Board of Directors ;

discussions with and review of various analyses prepared by representatives of Wells Fargo Securities, understanding that these discussions and analyses were based on, among other things, Wells Fargo Securities experience in advising companies in the oil and gas exploration and production industry in addition to its review of both Halcón and GeoResources from a financial, strategic and market perspective;

the results of the business, petroleum engineering, legal, environmental and financial due diligence investigations of Halcón conducted by GeoResources management and outside advisors;

presentations, by, and discussions with, senior executives of GeoResources and representatives of its outside legal counsel regarding the terms and conditions of the merger agreement;

the merger consideration and the merger agreement reflect arm s-length negotiations between GeoResources and Halcón and the merger consideration constitutes the highest total value to stockholders of GeoResources that GeoResources had been offered to date for the acquisition or control of GeoResources;

In addition to the merger consideration, GeoResources board of directors considered additional terms and conditions of the merger agreement that it believes are favorable, including:

the absence of a financing condition to Halcón s payment of cash consideration of $20.00 per share of GeoResources common stock;

the exchange ratio for the Halcón shares portion of the merger consideration to be received in the merger is fixed so that the GeoResources stockholders will have the continued opportunity to benefit from any appreciation in the share price of Halcón common stock between the announcement of the merger agreement and completion of the merger;

the provisions that allow GeoResources to engage in negotiations with, and provide information to, third parties in response to unsolicited, bona fide, written acquisition proposals from such third parties that may be superior to the Halcón merger consideration;

- Unless an alternative superior merger proposal received from a third party is matched by Halcón, the merger agreement allows GeoResources to terminate the merger agreement prior to the receipt of GeoResources stockholder approval of the merger and to enter into a written agreement with a third party to effectuate a superior proposal; and

- the merger agreement requires the approval of the holders of at least a majority of GeoResources common stock.

The GeoResources board of directors also considered certain risks associated with the merger including, among others, the following risks:

- that the merger might not be completed as a result of a failure to satisfy one or more conditions to the merger;

- that the operations of the two companies may not be integrated successfully;

that Halcón s existing assets and/or Halcón s targeted areas for growth are in early stages of leasing, exploitation and development and the economics and resources associated with these opportunities have not been de-risked;

that any anticipated synergies may not be fully realized;

that notwithstanding the relative trading values of the shares of GeoResources and Halcón the amount of the premium represented by the merger consideration on the date the merger agreement was signed might be less at the time the merger is consummated as a result of market fluctuations in the price of Halcón common stock due to the fixed exchange ratio of the Halcón common stock for the GeoResources common stock;

that the merger agreement generally prohibits GeoResources, its management employees, directors and advisors from taking any action to seek or solicit an alternative transaction or takeover proposal and from recommending, participating in discussions regarding or furnishing information with respect to an alternative takeover proposal, except in each case in limited circumstances, which permit the members of the GeoResources board to comply with their fiduciary duties;

that in the event of the termination of the merger agreement in certain instances GeoResources could be responsible for payment to Halcón of a termination fee of $27.8 million and up to an additional $10.0 million in expense reimbursement;

Halcón has convertible debt securities outstanding that have conversion terms into Halcón common stock that, if converted, will cause a substantial increase in the number of Halcón common shares outstanding. This expected future share issuance may not be entirely reflected in the price of Halcón shares and depress the value of Halcón shares in the future as such securities are converted;

GeoResources stockholders will in the aggregate have a reduced equity position in Halcón compared to their existing ownership of GeoResources, which could be diluted in the future and GeoResources stockholders will only participate in any future earnings or growth of the existing business and assets of GeoResources on a reduced basis notwithstanding its participation in the other business and operations of Halcón;

the merger agreement contains restrictions on the conduct of GeoResources business prior to the completion of the merger that could adversely affect GeoResources operations and assets should the merger not be consummated;

Halcón is expected to continue making acquisitions to expand its presence in its key focus areas and to enter other areas. In connection with making these acquisitions Halcón may issue additional shares, causing ownership dilution to its stockholders, and Halcón may incur additional debt;

given a non-compete agreement between Mr. Wilson and Petrohawk Energy Corporation, Halcón may be required to sell GeoResources Eagle Ford properties post-closing. In the event that these assets are sold post-closing they could be sold at a price that could be less than the intrinsic value of these assets, or in the event that they are sold for substantially more than their intrinsic value GeoResources stockholders will only indirectly benefit;

in the event that the merger is not consummated, the failed transaction costs, including costs of potential litigation, arising from the failed merger agreement, will be significant to a company the size of GeoResources; and other matters described under the caption Risk Factors.

The foregoing discussion of the factors considered by the GeoResources board of directors in making its decision is not exhaustive, but includes the material factors considered by the GeoResources board of directors. In view of the variety of material factors considered in connection with its evaluation of the merger, the GeoResources board of directors did not find it practicable to, and did not, quantify or otherwise assign relative

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or specific weight to any of these factors, and individual directors may have given different weight to different factors. Rather, the GeoResources board of directors made its determination based on the totality of the information presented to it.

The above description of the GeoResources board of directors considerations relating to the merger is forward-looking in nature. This information should be read in light of the factors discussed above under Cautionary Statement Concerning Forward-Looking Statements.

In approving and adopting the merger agreement and approving the merger, the GeoResources board of directors was aware of the interests of certain directors and officers of GeoResources in the merger, as discussed below under Interests of GeoResources Directors and Executive Officers in the Merger.

Recommendation of the GeoResources Board of Directors

At its meeting on April 23, 2012, after due consideration, the GeoResources board of directors unanimously adopted resolutions (i) determining that the merger agreement and the merger, in accordance with the terms of the merger agreement, and the other transactions contemplated thereby are fair to, advisable and in the best interests of GeoResources and its stockholders, (ii) approving and adopting the merger agreement and approving the merger and the other transactions contemplated by the merger agreement, (iii) directing that the merger agreement be submitted to a vote of the GeoResources stockholders at the GeoResources special meeting and (iv) recommending that the GeoResources stockholders vote FOR the approval and adoption of the merger agreement.

Opinion of Barclays to the Halcón Board of Directors

Halcón engaged Barclays to act as a financial advisor with respect to the merger. On April 24, 2012, Barclays rendered its oral opinion (which was subsequently confirmed in writing) to Halcón s Board of Directors that, as of such date and based upon and subject to the qualifications, limitations and assumptions stated in its opinion, the merger consideration to be paid by Halcón in the transaction was fair, from a financial point of view, to Halcón.

The full text of Barclays written opinion, dated as of April 24, 2012, is attached as Annex D to this joint proxy statement/prospectus. Barclays written opinion sets forth, among other things, the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Barclays in rendering its opinion. You are encouraged to read the opinion carefully in its entirety. The following is a summary of Barclays opinion and the methodology that Barclays used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

Barclays opinion, the issuance of which was approved by Barclays Fairness Opinion Committee, is addressed to the Board of Directors of Halcón, addresses only the fairness, from a financial point of view, of the merger consideration to be paid by Halcón in the transaction and does not constitute a recommendation to any stockholder of Halcón as to how such stockholder should vote with respect to the transaction or any other matter. The terms of the transaction were determined through arm s-length negotiations between Halcón and GeoResources and were approved by Halcón s Board of Directors. Barclays was not requested to address, and its opinion does not in any manner address, Halcón s underlying business decision to proceed with or effect the transaction or the likelihood of consummation of the transaction. In addition, Barclays expressed no opinion on, and its opinion does not in any manner address, the fairness of the amount or the nature of any compensation to any officers, directors or employees of any parties to the transaction, or any class of such persons, relative to the merger consideration to be paid by Halcón in the transaction or otherwise. No limitations were imposed by Halcón s Board of Directors upon Barclays with respect to the investigations made or procedures followed by it in rendering its opinion.

In arriving at its opinion, Barclays reviewed and analyzed, among other things:

- the merger agreement and the specific terms of the transaction;

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publicly available information concerning Halcón and GeoResources that Barclays believed to be relevant to its analysis, including, without limitation, each of Halcón s and GeoResources Annual Reports on Form 10-K for the fiscal year ended December 31, 2011;

financial and operating information with respect to the business, operations and prospects of Halcón furnished to Barclays by Halcón including financial projections of Halcón prepared by management of Halcón (the Halcón Projections);

financial and operating information with respect to the business, operations and prospects of GeoResources as furnished to Barclays by GeoResources, including financial projections of GeoResources prepared by management of GeoResources (the GeoResources Projections);

published estimates of independent equity research analysts with respect to the future financial performance and price targets of each of Halcón and GeoResources including consensus estimates published by Institutional Brokers Estimate System for each of Halcón and GeoResources;

estimates of certain (i) proved reserves, as of January 1, 2012, for Halcón as prepared by a third-party reserve engineer and (ii) non-proved reserve potential for Halcón as of April 16, 2012, based upon modeling of the undeveloped acreage potential of Halcón as discussed with and reviewed by the management of Halcón ((i) and (ii) collectively, the Halcón Proved Reserve and Non-Proved Resource Potential Reports);

estimates of certain (i) proved reserves, as of January 1, 2012, for GeoResources as prepared by a third-party reserve engineer and (ii) non-proved reserve potential for GeoResources as of January 1, 2012, based upon modeling of the undeveloped acreage potential of GeoResources including the impact upon the resource potential of estimates of individual well recoveries as estimated by management of GeoResources as discussed with and reviewed by the management of Halcón and GeoResources ((i) through (ii) collectively, the GeoResources Proved Reserves and Non-Proved Resource Potential Reports);

the trading histories of Halcón common stock and GeoResources common stock from April 25, 2011 to April 23, 2012 and a comparison of those trading histories with each other and with those of other companies that Barclays deemed relevant;

a comparison of the historical financial results and present financial condition of Halcón and GeoResources with each other and with those of other companies that Barclays deemed relevant;

a comparison of the financial terms of the transaction with the financial terms of certain other transactions that Barclays deemed relevant;

the potential pro forma impact of the transaction on the current and future financial performance of the combined company;

the relative contributions of Halcón and GeoResources to the current and future financial performance of the combined company on a pro forma basis;

the relative trading liquidity of Halcón common stock and the common stock of the pro forma combined company; and the anticipated impact of certain asset dispositions discussed with the management of Halcón.

In addition, Barclays (i) had discussions with the managements of Halcón and GeoResources concerning their respective businesses, operations, assets, financial conditions, reserves, production profiles, hedging levels, commodity prices, development programs, exploration programs and prospects and (ii) undertook such other studies, analyses and investigations as Barclays deemed appropriate.

In arriving at its opinion, Barclays assumed and relied upon the accuracy and completeness of the financial and other information used by Barclays without assuming any responsibility for independent verification of such information and further relied upon the assurances of the managements of Halcón and GeoResources that they

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are not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the Halcón Projections, upon advice of Halcón, Barclays assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of Halcón as to the future financial performance of Halcón and that Halcón will perform substantially in accordance with such projections. With respect to the GeoResources Projections, upon advice of Halcón and GeoResources, Barclays assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of GeoResources as to the future financial performance of GeoResources and that GeoResources will perform substantially in accordance with such projections.

With respect to the Halcón Proved Reserves and Non-Proved Resource Potential Reports, Barclays discussed these reports with the management of Halcón and upon the advice of Halcón, Barclays assumed that the Halcón Proved Reserve and Non-Proved Resource Potential Reports were a reasonable basis upon which to evaluate the proved reserves and non-proved resource levels of Halcón. With respect to the GeoResources Proved Reserve and Non-Proved Resource Potential Reports, Barclays discussed these reports with the managements of Halcón and GeoResources and upon the advice of Halcón and GeoResources, Barclays assumed that the GeoResources Proved Reserve and Non-Proved Resource Potential Reports were a reasonable basis upon which to evaluate the proved reserves and non-proved resource levels of GeoResources.

At the direction of Halcón, Barclays considered the possible asset dispositions and concessions that Halcón may have to make in connection with the transaction to ensure compliance with other agreements that the management of Halcón has agreed to and Barclays discussed these possible dispositions with Halcón management.

Barclays assumed no responsibility for and Barclays expressed no view as to any projections for estimates described above or the assumptions on which they were based.

In arriving at its opinion, Barclays did not conduct a physical inspection of the properties and facilities of Halcón or GeoResources and did not make or obtain any evaluations or appraisals of the assets or liabilities of Halcón or GeoResources. Barclays opinion necessarily is based upon market, economic and other conditions as they exist on, and can be evaluated as of, the date of its letter. Barclays assumes no responsibility for updating or revising its opinion based on events or circumstances that may occur after the date of its letter. In addition, Barclays expresses no opinion as to the prices at which shares of (i) Halcón common stock or GeoResources common stock will trade at any time following the announcement of the transaction or (ii) Halcón common stock will trade at any time following the consummation of the transaction.

Barclays assumed the accuracy of the representations and warranties contained in the merger agreement and all agreements related thereto. Barclays also assumed, upon the advice of Halcón, that all material governmental, regulatory and third party approvals, consents and releases for the transaction will be obtained within the constraints contemplated by the merger agreement and that the transaction will be consummated in accordance with the terms of the merger agreement without waiver, modification or amendment of any material term, condition or agreement thereof. Barclays did not express any opinion as to any tax or other consequences that might result from the transaction, nor does the opinion address any legal, tax, regulatory or accounting matters, as to which Barclays understands that Halcón obtained any such advice as it deemed necessary from qualified professionals.

In connection with rendering its opinion, Barclays performed certain financial, comparative and other analyses as summarized below. In arriving at its opinion, Barclays did not ascribe a specific range of values to the shares of GeoResources common stock but rather made its determination as to fairness, from a financial point of view, to Halcón of the merger consideration to be paid by Halcón in the transaction on the basis of various financial and comparative analyses. The preparation of a fairness opinion is a complex process and involves various determinations as to the most appropriate and relevant methods of financial and comparative analyses and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to summary description.

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In arriving at its opinion, Barclays did not attribute any particular weight to any single analysis or factor considered by it. Barclays made qualitative judgments as to the significance and relevance of each analysis and factor relative to all other analyses and factors performed and considered by it and in the context of the circumstances of the particular transaction. Accordingly, Barclays believes that its analyses must be considered as a whole, because any portion of such analyses and factors, without considering all analyses and factors as a whole, could create a misleading or incomplete view of the process underlying its opinion.

The following is a summary of the material financial, comparative and other analyses used by Barclays in preparing its opinion to Halcón s Board of Directors. Certain financial, comparative and other analyses summarized below include information presented in tabular format. In order to fully understand the methodologies and the financial, comparative and other analyses used by Barclays, the tables must be read together with the text of each summary, as the tables alone do not constitute a complete description of the financial, comparative and other analyses. In performing its analyses, Barclays made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Halcón or GeoResources. None of Halcón, GeoResources, Barclays or any other person assumes responsibility if future results are materially different from those discussed. Any estimates contained in these analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than as set forth below. In addition, analyses relating to the value of the businesses do not purport to be appraisals or reflect the prices at which the businesses may actually be sold.

Summary of Analyses

Barclays prepared separate valuations of GeoResources and Halcón. In determining valuation for Halcón and GeoResources, Barclays used the following methodologies:

- net asset valuation analysis;
- comparable company analysis;
- comparable transaction analysis; and
- equity research analyst price target analysis.

Each of these methodologies was used to generate reference enterprise or equity value ranges for each of GeoResources and Halcón, respectively. The enterprise value ranges for each company were adjusted for appropriate on-balance sheet and off-balance sheet assets and liabilities in order to arrive at implied equity value ranges (in aggregate dollars) for each company.

The implied equity value ranges for each of GeoResources and Halcón, respectively, were then divided by diluted shares outstanding, comprised of primary shares and incorporating the dilutive effect of outstanding options, warrants, restricted stock units, and convertible debt as appropriate, in order to derive implied equity value ranges per share for each company.

The implied equity value ranges per share of GeoResources common stock were compared to the value of the merger consideration to be paid by Halcón in the transaction. In addition, the value of the merger consideration to be paid by Halcón in the transaction was compared, for each valuation methodology, to the total summation of the implied equity value range per share of Halcón common stock multiplied by the 1.932 exchange ratio plus the cash consideration of $20.00 per GeoResources share. In addition, the implied equity value ranges per share of Halcón common stock were compared to Halcón s closing stock price of $9.24 on April 23, 2012.

In addition to analyzing the value of GeoResources and Halcón, Barclays also analyzed and reviewed (i) the pro forma impact of the transaction on the current and future financial performance of the combined company including the pro forma impact the projected estimates for 2012 and 2013 discretionary cash flow (which is generally defined as net operating income plus depreciation, depletion and amortization, deferred taxes and exploration expense, adjusted for other non-cash charges but before changes in net working capital) per share (DCFPS); and (ii) certain publicly available information related to selected corporate transactions to calculate the amount of premiums paid by the acquirers to the acquired company s stockholders.

In particular, in applying the various valuation methodologies to the particular businesses, operations and prospects of GeoResources and Halcón, and the particular circumstances of the transaction, Barclays made qualitative judgments as to the significance and relevance of each analysis. In addition, Barclays made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of GeoResources and Halcón. Accordingly, the methodologies and the implied common equity value ranges derived therefrom must be considered as a whole and in the context of the narrative description of the financial analyses, including the assumptions underlying these analyses.

The implied equity value ranges per share, derived using the various valuation methodologies listed above, supported the conclusion that the merger consideration to be paid by Halcón in the transaction was fair, from a financial point of view, to Halcón.

Net Asset Valuation

Barclays performed a two-part net asset valuation analysis for each company. For the first part of the net asset valuation analysis (referred to as the Reserve Report Valuation), Barclays estimated the present value of the future after-tax cash flows expected to be generated from each company s proved reserves as of January 1, 2012, based on reserve, production and capital cost estimates as of January 1, 2012. The Reserve Report Valuation was determined using a range of discount rates and assuming a tax rate of thirty percent and applying certain risk adjustments to certain categories of reserves. For the second part of the net asset valuation analysis (referred to as the Drill-out Valuation), Barclays estimated the net present value of the future after-tax cash flows expected to be generated from the development of the portion of each company s asset portfolio which was not included in the Reserve Report Valuation. The Drill-out Valuation was determined by using a range of discount rates and risk factors, assumed development consistent with each company s plans and an assumed tax rate of thirty percent. The net asset valuation analysis for each company was performed under four commodity price scenarios (Case I, Case II, Case III and Case IV) which are described below.

The Reserve Report Valuation and the Drill-out Valuation were added together to generate a reference enterprise value range for each of GeoResources and Halcón, respectively. The enterprise value ranges for each company were adjusted for appropriate on-balance sheet and off-balance sheet assets and liabilities in order to arrive at implied equity value ranges (in aggregate dollars) for each company. In the case of GeoResources, the adjustments included the after-tax net present value of GeoResources estimated general and administrative expenses and commodity hedging portfolio. In the case of Halcón, the adjustments included the after-tax net present value of Halcón s estimated general and administrative expenses; commodity hedging portfolio and estimated future costs of infrastructure development, leasehold acquisition and seismic. The implied equity value ranges for each of GeoResources and Halcón, respectively, were then divided by diluted shares outstanding, comprised of primary shares and incorporating the dilutive effect of outstanding options, warrants, restricted stock units, and convertible debt as appropriate, in order to derive implied equity value ranges per share for each company.

Certain of the natural gas and oil price forecasts employed by Barclays were based on New York Mercantile Exchange, or NYMEX, price forecasts (Henry Hub, Louisiana delivery for natural gas and West Texas Intermediate, Cushing, Oklahoma delivery for oil) to which adjustments were made to reflect location and quality differentials. NYMEX gas price quotations stated in heating value equivalents per million British Thermal Units, or MMBtu, were adjusted to reflect the value per thousand cubic feet, or Mcf, of gas. NYMEX oil price quotations are stated in dollars per barrel, or Bbl, of crude oil.

The following table summarizes the natural gas and oil price forecasts Barclays employed to perform its net asset valuation analyses for Halcón and GeoResources. Case IV reflects an approximation of the NYMEX strip as of the close of business on April 23, 2012.

	2012E	2013E	2014E	2015E	2016E	Thereafter
Oil WTI ($/Bbl)						
Case I	$ 90.00	$ 90.00	$ 90.00	$ 90.00	$ 90.00	$ 90.00
Case II	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00
Case III	$ 110.00	$ 110.00	$ 110.00	$ 110.00	$ 110.00	$ 110.00
Case IV	$ 104.08	$ 103.35	$ 98.78	$ 94.74	$ 91.71	$ 91.71
Gas HHUB ($/Mcf)						
Case I	$ 3.00	$ 3.00	$ 3.00	$ 3.00	$ 3.00	$ 3.00
Case II	$ 4.00	$ 4.00	$ 4.00	$ 4.00	$ 4.00	$ 4.00
Case III	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00
Case IV	$ 2.36	$ 3.24	$ 3.70	$ 3.96	$ 4.18	$ 4.18

The net asset valuation analyses yielded valuations for GeoResources that implied an equity value range of $23.08 to $33.62 per share for Case I, an equity value range of $29.09 to $41.78 per share for Case II, an equity value range of $36.34 to $49.03 per share for Case III and an equity value range of $26.37 to $38.16 per share for Case IV. The net asset valuation analyses yielded valuations for Halcón that implied an equity value range of $8.02 to $10.10 per share for Case I, an equity value range of $11.24 to $13.79 per share for Case II, an equity value range of $14.36 to $17.58 per share for Case III and an equity value range of $10.10 to $12.56 per share for Case IV.

The valuation of the merger consideration to be received by GeoResources stockholders implied by the net asset valuation analyses for Halcón and the merger consideration, taken as the exchange ratio plus cash consideration of $20.00 per GeoResources share, implied an equity value range of $35.49 to $39.52 per GeoResources share for Case I, an equity value range of $41.71 to $46.65 per GeoResources share for Case II, an equity value range of $47.75 to $53.96 per GeoResources share for Case III and an equity value range of $39.52 to $44.27 per GeoResources share for Case IV. Barclays noted that these implied equity value ranges per GeoResources share were in line with, or in excess of, the implied equity value ranges per GeoResources share implied by Barclays net asset valuation analyses for GeoResources in each of Cases I, II, III and IV.

Comparable Company Analysis

In order to assess how the public market values shares of similar publicly traded companies, Barclays reviewed and compared specific financial and operating data relating to GeoResources and Halcón with selected companies that Barclays deemed comparable to GeoResources and Halcón, based on its experience in the exploration and production industry.

With respect to GeoResources and Halcón, Barclays reviewed the public stock market trading multiples for the following exploration and production companies, which Barclays selected because of their generally similar size, asset characteristics and relatively oil and liquids weighted portfolios:

Continental Resources, Inc.

Gulfport Energy Corp.

Kodiak Oil and Gas Corp.

Oasis Petroleum, Inc.

Rosetta Resources, Inc.

SM Energy Company

Whiting Petroleum Corp.

ZaZa Energy Corp.

Using publicly available information, Barclays calculated and analyzed enterprise value multiples of each comparable company s estimated earnings before interest, taxes, depreciation and amortization and exploration expense (EBITDAX) for 2012 and 2013, proved reserves and latest daily production, each pro forma for acquisition and divestiture activity. The enterprise value of each comparable company was obtained by adding its outstanding debt to the sum of the market value of its common stock, the book value of its preferred stock and the book value of any non-controlling interest minus its cash balance, as appropriate. Barclays calculated the enterprise value multiples of EBITDAX, proved reserves and latest daily production by dividing each company s calculated enterprise value by its EBITDAX, proved reserves and latest daily production, respectively. Barclays also calculated and analyzed share price multiples of each comparable company s estimated DCFPS for 2012 and 2013. Barclays calculated the share price multiples of DCFPS by dividing each company s share price by its DCFPS. The results of the comparable company analysis are summarized below.

	Multiple Ranges of Comparable Companies		
	Low	**Median**	**High**
Enterprise Value as a Multiple of:			
2012E EBITDAX	4.5x	6.1x	20.2x
2013E EBITDAX	3.4x	4.3x	11.1x
12/31/11 Pro Forma Proved Reserves ($/Boe)	$ 17.02	$ 36.23	$ 69.81
Latest Daily Production ($/Boe/d)	$ 54,131	$ 194,589	$ 390,076
Share Price as a Multiple of:			
2012E DCFPS	4.1x	5.8x	47.4x
2013E DCFPS	3.1x	4.3x	18.6x

Barclays selected the comparable companies listed above because their business and operating profiles are reasonably similar to that of GeoResources and Halcón. However, because of the inherent differences between the business, operations and prospects of GeoResources and Halcón and those of the selected comparable companies, Barclays believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the selected comparable company analysis. Accordingly, Barclays also made qualitative judgments concerning differences between the business, financial and operating characteristics and prospects of GeoResources and Halcón and the selected comparable companies that could affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degrees of operational risk between GeoResources and Halcón with each other and the selected companies included in the comparable company analysis.

Based upon these judgments, Barclays selected the following enterprise value multiple ranges for GeoResources. Barclays selected enterprise value multiple ranges of 5.5x to 7.5x per estimated 2012 EBITDAX, 4.0x to 5.0x per estimated 2013 EBITDAX, $25.00 to $40.00 per proved barrel of oil equivalent and $100,000 to $200,000 per barrel of oil equivalent of daily production, respectively. In addition, Barclays selected an equity value multiple range of 5.5x to 7.5x per estimated 2012 DCFPS and 4.0x to 5.5x per estimated 2013 DCFPS, respectively. Utilizing these multiple value ranges, the comparable company analysis implied an equity value range for GeoResources of $29.60 to $46.06 per share.

Additionally, based upon these judgments, Barclays selected the following enterprise value multiple ranges for Halcón. Barclays selected an enterprise value range of 7.0x to 10.0x per estimated 2012 EBITDAX, 5.0x to 7.5x per estimated 2013 EBITDAX, $50.00 to $70.00 per proved barrel of oil equivalent and $200,000 to $400,000 per barrel of oil equivalent of daily production, respectively. In addition, Barclays selected an equity value multiple range of 6.5x to 9.5x per estimated 2012 DCFPS and 4.0x to 7.0x per estimated 2013 DCFPS, respectively. Utilizing these multiple value ranges, the comparable company analysis implied an equity value range for Halcón of $8.11 to $10.95 per share.

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The valuation of the merger consideration to be received by GeoResources stockholders implied by comparable company analysis for Halcón and the merger consideration, taken as the exchange ratio plus cash consideration of $20.00 per GeoResources share, implied an equity value range of $35.67 to $41.16 per GeoResources share.

Comparable Transaction Analysis

Barclays reviewed and compared the purchase prices and financial and operating multiples paid in selected other transactions that Barclays deemed relevant, based on its experience with merger and acquisition transactions, for the areas included in the Halcón Proved Reserve and Non-Proved Resource Potential Reports and the GeoResources Proved Reserves and Non-Proved Resource Potential Reports. The selected transaction multiples were applied to each of the areas included in the Halcón Proved Reserve and Non-Proved Resource Potential Reports and the GeoResources Proved Reserves and Non-Proved Resource Potential Reports to arrive at a sum of the parts enterprise value range for each company. The enterprise value range for each company was adjusted for appropriate on-balance sheet and off-balance sheet assets and liabilities that were not included in the Halcón Proved Reserve and Non-Proved Resource Potential Reports and the GeoResources Proved Reserve and Non-Proved Resource Potential Reports.

The reasons for and the circumstances surrounding each of the selected comparable transactions analyzed were diverse and there are inherent differences between the businesses, operations, financial conditions and prospects of GeoResources assets and the assets included in the comparable transactions analysis. Accordingly, Barclays believed that a purely quantitative comparable transactions analysis would not be particularly meaningful in the context of considering the transactions. Barclays therefore made qualitative judgments concerning differences between the characteristics of the selected precedent transactions and the transactions which would affect the acquisition values of the selected target companies and assets and GeoResources assets. Based upon these judgments, Barclays selected enterprise value ranges, which implied an equity value range for GeoResources of $26.80 to $46.97 per GeoResources share.

The reasons for and the circumstances surrounding each of the selected comparable transactions analyzed were diverse and there are inherent differences between the businesses, operations, financial conditions and prospects of Halcón s assets and the assets included in the comparable transactions analysis. Accordingly, Barclays believed that a purely quantitative comparable transactions analysis would not be particularly meaningful in the context of considering the transactions. Barclays therefore made qualitative judgments concerning differences between the characteristics of the selected precedent transactions and the transactions which would affect the acquisition values of the selected target companies and assets and Halcón s assets. Based upon these judgments, Barclays selected enterprise value ranges, which implied an equity value range for Halcón from the transaction of $5.17 to $8.59 per Halcón share.

The valuation of the merger consideration to be received by GeoResources stockholders implied by the comparable transaction analysis for Halcón and the merger consideration, taken as the exchange ratio plus cash consideration of $20.00 per GeoResources share, implied an equity value range of $30.00 to $36.59 per GeoResources share.

Equity Research Analyst Price Target Analysis

Barclays evaluated the publicly available price targets of Halcón and GeoResources published by independent equity research analysts associated with various Wall Street firms in order to calculate the implied equity value per share range for Halcón and GeoResources. With respect to GeoResources, the independent equity research analyst target prices evaluated ranged from $29.00 to $43.00 per GeoResources share and Barclays advised the Halcón Board of Directors of all of these target prices. With respect to Halcón, the independent equity research analyst target prices evaluated ranged from $11.00 per share to $15.00 per Halcón share and Barclays advised the Halcón Board of Directors of all of these target prices. The value of the merger

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consideration to be received by GeoResources stockholders implied by the equity research analyst price target analysis for Halcón and the merger consideration, taken as the exchange ratio plus cash consideration of $20.00 per GeoResources share implied an equity value range of $41.25 to $48.98 per GeoResources share.

Pro Forma Merger Consequences Analysis

Barclays analyzed the pro forma impact of the merger on Halcón s pro forma 2012 and 2013 estimated DCFPS based on the Halcón Projections and the GeoResources Projections. Barclays compared the 2012 and 2013 estimated DCFPS of Halcón on a standalone basis to the 2012 and 2013 estimated DCFPS attributable to the pro forma combined company including adjustments for the financing of the transaction. Barclays noted that the merger was accretive to the estimated pro forma 2012 and 2013 DCFPS for Halcón.

Premiums Analysis

Barclays reviewed certain publicly available information related to selected corporate transactions to calculate the amount of the premiums paid by the acquirers to the acquired company s stockholders. Barclays analyzed all domestic corporate energy transactions announced for the period from May 1, 2001 to April 24, 2012 with total transaction values greater than $500 million and less than $5 billion.

For each of the precedent transactions analyzed, Barclays calculated the premiums paid by the acquirer by comparing the per share purchase price in each transaction to the historical stock price of the acquired company as of 1-day, 5-days, 10-days and 20-days prior to the announcement date as well as based upon the 52-week high prior to the announcement date. Barclays compared the premiums paid in the precedent transactions to the premium levels in the transaction based on closing prices as of April 23, 2012. The table below sets forth the summary results of the analysis:

Selected corporate energy transactions (May 1, 2001)	**Percentage Premium /(Discount) to the Closing Price Prior to Transaction Announcement** 1-Day	5-Days	10-Days	20-Days	52-Week High
Median	20.9%	24.5%	27.7%	26.8%	8.2%
Mean	21.9%	26.2%	28.7%	28.5%	4.8%
Low	(4.3)%	(5.8)%	(8.0)%	(4.0)%	(70.6)%
High	60.0%	65.0%	77.0%	73.1%	55.7%
Implied premium based on merger consideration (as of April 23, 2012 close)	24.4%	20.5%	22.5%	11.6%	5.2%

General

Barclays is an internationally recognized investment banking firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, investments for passive and control purposes, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. The management of Halcón recommended, and the Halcón Board of Directors determined, to select Barclays because of its familiarity with Halcón and GeoResources, its historical relationship with Halcón, and because of Barclays qualifications, reputation and experience in the valuation of businesses and securities in connection with mergers and acquisitions generally, knowledge of the industries in which Halcón and GeoResources operate, as well as substantial experience in transactions comparable to the transaction.

Barclays has acted as financial advisor to Halcón in connection with the transaction and will receive fees for its services, a portion of which was payable upon rendering its opinion and a substantial portion of which is contingent upon the consummation of the transaction. In addition, Halcón has agreed to reimburse Barclays expenses and indemnify Barclays for certain liabilities that may arise out of its engagement. Barclays has performed various investment banking services for Halcón and its affiliates in the past, and has received customary fees for such services. Specifically, in the past two years, Barclays has performed the following investment banking and financial services for Halcón and its affiliates, for which it has received customary compensation: (i) in February 2012, Barclays acted as a joint placement agent on Halcón s $400 million private equity in the public market offering and (ii) Barclays is currently a lender under Halcón s existing revolving credit facility. In the past two years, Barclays has performed only limited services for GeoResources for which it has received limited compensation. Barclays expects to perform investment banking and financial services for Halcón and its affiliates in the future and expects to receive customary fees for such services. In addition, Halcón has requested and Barclays is participating in the financing required in connection with the consummation of the transaction and Barclays will receive customary fees in connection therewith.

Barclays Capital Inc. and its affiliates engage in a wide range of businesses from investment and commercial banking, lending, asset management and other financial and non-financial services. In the ordinary course of its business, Barclays and its affiliates may actively trade and effect transactions in the equity, debt and/or other securities (and any derivatives thereof) and financial instruments (including loans and other obligations) of Halcón and its affiliates and GeoResources and its affiliates for Barclays own account and for the accounts of Barclays customers and, accordingly, may at any time hold long or short positions and investments in such securities and financial instruments.

Opinion of Wells Fargo Securities to the GeoResources Board of Directors

GeoResources retained Wells Fargo Securities to act as its financial advisor and render a fairness opinion in connection with a possible transaction involving GeoResources and Halcón and its affiliates. In connection with this engagement, the board of directors of GeoResources requested that Wells Fargo Securities provide its opinion as to the fairness, from a financial point of view, of the merger consideration of (1) $20.00 cash, without interest, and (2) 1.932 shares of Halcón common stock per share to be received by the holders of GeoResources common stock (other than Halcón and its affiliates) pursuant to the merger agreement. In selecting Wells Fargo Securities as its financial advisor, the board of directors of GeoResources considered, among other things, the fact that Wells Fargo Securities is an internationally-recognized investment banking firm with substantial experience advising companies in the oil and gas exploration and production industry and has substantial experience providing strategic advisory services in similar transactions. Wells Fargo Securities, as part of its investment banking business, is continuously engaged in the evaluation of businesses and debt and equity securities in connection with mergers and acquisitions; underwritings, private placements and other securities offerings; senior credit financings; and general corporate advisory services.

On April 23, 2012, at a meeting of the GeoResources board of directors held to consider the merger agreement, Wells Fargo Securities delivered to the board of directors of GeoResources an oral opinion, which was confirmed by delivery of a written opinion, dated April 24, 2012, to the effect that, as of the date of the written opinion, and based on and subject to various assumptions made, procedures followed, matters considered and limitations on the review undertaken by Wells Fargo Securities in connection with the opinion, the experience of its investment bankers and other factors it deemed relevant, the merger consideration of (1) $20.00 cash, without interest, and (2) 1.932 shares of Halcón common stock per share to be received by the holders of GeoResources common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders (other than Halcón and its affiliates). The issuance of the opinion of Wells Fargo Securities was approved by an authorized committee of Wells Fargo Securities.

The full text of Wells Fargo Securities written opinion, dated April 24, 2012, to the board of directors of GeoResources sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with such opinion, is attached as Annex E to this joint proxy statement/prospectus and is incorporated by reference in its entirety into this joint proxy statement/prospectus. The following summary is qualified in its entirety by reference to the full text of the opinion. Wells Fargo Securities provided its opinion for the information and use of the board of

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directors of GeoResources in connection with its evaluation of the merger and should not be construed as creating, and Wells Fargo Securities shall not be deemed to have, any fiduciary duty to the board of directors of GeoResources, GeoResources, any security holder or creditor of GeoResources or any other person, regardless of any prior or ongoing advice or relationships. Wells Fargo Securities opinion does not address the merits of the underlying decision by GeoResources to enter into the merger agreement or the relative merits of the merger compared with other business strategies or transactions that might be available to GeoResources and does not constitute a recommendation as to, or otherwise address, how any holder of shares of GeoResources common stock should vote with respect to the merger or any other matter.

In arriving at its opinion, Wells Fargo Securities, among other things:

Reviewed a draft dated April 23, 2012 of the merger agreement, including the financial terms of the merger agreement, and certain related draft agreements;

Reviewed certain business, financial and other information regarding GeoResources that was publicly available or was furnished to it by the management of GeoResources;

Reviewed certain financial projections for GeoResources prepared by the management of GeoResources, which we refer to in this joint proxy statement/prospectus as the GeoResources Projections ;

Discussed with the management of GeoResources the operations and prospects of GeoResources, including the historical financial performance and trends in the results of operations of GeoResources, and certain estimates of GeoResources proved reserves prepared by GeoResources independent oil and gas reserve engineers and by GeoResources management, which we refer to in this joint proxy statement/prospectus as the GeoResources Reserve Report and the GeoResources Management Reserve Estimates , respectively;

Reviewed certain business, financial and other information regarding Halcón that was publicly available or was furnished to it by Halcón or GeoResources;

Reviewed certain financial projections for Halcón prepared by the management of GeoResources, which we refer to in this joint proxy statement/prospectus as the Halcón Projections ;

Discussed with the managements of Halcón and GeoResources the operations and prospects of Halcón, including the historical financial performance and trends in the results of operations of Halcón, and certain estimates of Halcón s proved reserves prepared by Halcón s independent oil and gas reserve engineers and by the management of GeoResources, which we refer to in this joint proxy statement/prospectus as the Halcón Reserve Report and Halcón Management Reserve Estimates , respectively;

Discussed with the management of GeoResources the strategic rationale for the merger;

Compared certain business, financial and other information regarding GeoResources and Halcón, respectively, that was publicly available or was furnished to it by the management of GeoResources with publicly available business, financial and other information regarding certain publicly traded companies that Wells Fargo Securities deemed relevant;

Compared the proposed financial terms of the merger agreement with the financial terms of certain other business combinations and transactions that Wells Fargo Securities deemed relevant;

Prepared a discounted cash flow analysis of GeoResources based upon the GeoResources Projections, as well as other assumptions discussed with and confirmed as reasonable by the management of GeoResources;

Prepared a discounted cash flow analysis of Halcón based upon the Halcón Projections and other assumptions discussed with and confirmed as reasonable by the management of GeoResources; and

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Considered other information such as financial studies, analyses and investigations, as well as financial, economic and market criteria that Wells Fargo Securities deemed relevant.

In connection with its review, Wells Fargo Securities assumed and relied upon the accuracy and completeness of the foregoing financial and other information, including all accounting, tax and legal information, and did not make (and did not assume any responsibility for) any independent verification of such information. Wells Fargo Securities assumed, with the consent of the management of GeoResources, that such management was not aware of any facts or circumstances that would make such information inaccurate or misleading in any way meaningful to Wells Fargo Securities analysis. With respect to the financial forecasts and estimates utilized in its analyses, including the GeoResources Projections, the Halcón Projections, the GeoResources Management Reserve Estimates and the Halcón Management Reserve Estimates, Wells Fargo Securities assumed, with the consent of the management of GeoResources, that they have been reasonably prepared and reflect the best good faith current estimates, judgments and assumptions of the management of GeoResources as to the future financial performance of GeoResources and Halcón and the other matters covered thereby, and Wells Fargo Securities assumed with the consent of the management of GeoResources, that any potential disposition of any assets that may be required by Halcón pursuant to the Executive Retention Agreement, dated as of July 14, 2011, by and between Petrohawk Energy Corporation and Floyd C. Wilson in connection with the merger, which we refer to in this joint proxy statement/prospectus as the Potential Disposition , will not, in the aggregate, make the GeoResources Projections and the Halcón Projections misleading in any way meaningful to Wells Fargo Securities analysis. As of the date of its written opinion, Wells Fargo Securities further assumed, that any potential asset or corporate acquisitions made by Halcón, which we refer to in this joint proxy statement/prospectus as Potential Halcón Acquisitions will not, in the aggregate, make the GeoResources Projections and the Halcón Projections misleading in any way meaningful to Wells Fargo Securities analysis. Wells Fargo Securities assumed no responsibility for, and expressed no view as to, such forecasts or estimates or the judgments or assumptions upon which they are based. With respect to the GeoResources Reserve Report and the Halcón Reserve Report, which we refer to collectively in this joint proxy statement/prospectus as the Third Party Reserve Reports , Wells Fargo Securities assumed, with the consent of the management of GeoResources, that they were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the preparers thereof as to the respective oil and gas reserves of GeoResources and Halcón reflected therein. Wells Fargo Securities relied, at the direction of the GeoResources board of directors, upon the assessments of GeoResources management as to GeoResources and Halcón s future oil and natural gas drilling and production, market and cyclical trends and prospects relating to the oil and gas industry, regulatory matters with respect thereto and the potential impact thereof on GeoResources and Halcón. Wells Fargo Securities also assumed that there had been no material changes in the condition (financial or otherwise), results of operations, business or prospects of GeoResources or Halcón since the date of the most recent business and financial information provided to it. In arriving at its opinion, Wells Fargo Securities did not conduct any physical inspection, evaluation or appraisal of the assets or liabilities (contingent or otherwise) of GeoResources or Halcón and had not been furnished with any such evaluation or appraisal (other than the Third Party Reserve Reports that Wells Fargo Securities reviewed and relied upon without independent verification for purposes of its opinion). Wells Fargo Securities is not an expert in the evaluation of oil and gas reserves, drilling or production levels and it expressed no view as to GeoResources or Halcón s reserve quantities or the development or production (including, without limitation, as to the feasibility or timing) of any oil or gas properties of GeoResources or Halcón (including unevaluated properties). Wells Fargo Securities also expressed no view as to future crude oil, natural gas and related commodity prices reflected in the financial forecasts and other information and data utilized in its analyses, which prices are subject to significant volatility and which, if different than as assumed, could have a material impact on Wells Fargo Securities analyses or opinion.

In rendering its opinion, Wells Fargo Securities assumed, with the consent of the board of directors of GeoResources, that the final form of the merger agreement and any related agreements, when signed by the parties thereto, would not differ from the drafts reviewed by it in any respect material to its analysis, that the transactions contemplated to be undertaken by GeoResources and Halcón in connection with the merger or otherwise would be consummated in accordance with the terms described in the merger agreement or as otherwise described to it by representatives of GeoResources and in compliance with all applicable laws, without waiver of any material terms or conditions, and that in the course of obtaining any necessary legal, regulatory or third party consents or approvals for the merger, no restrictions would be imposed or actions would be taken that would have an adverse effect on GeoResources or Halcón or the expected benefits of the merger. The opinion of Wells Fargo Securities was necessarily based upon economic, market, financial and other conditions and information made available to it as of the date of its opinion. Although subsequent developments may affect its opinion, Wells Fargo Securities does not have any obligation to update, revise or reaffirm its opinion.

The opinion of Wells Fargo Securities only addresses the fairness, as of April 24, 2012, from a financial point of view, to the holders of GeoResources common stock (other than Halcón and its affiliates) of the merger consideration to the extent expressly provided in its opinion, and does not address any other terms or aspects of the merger, including, without limitation, the form or structure of the merger, any allocation of the merger consideration, any tax or accounting matters relating to the merger or otherwise, any financing arrangements, the Potential Disposition, any Potential Halcón Acquisitions or the impact thereof on GeoResources or Halcón, or any aspect or implication of any other agreement or arrangement entered into in connection with or contemplated by the merger or otherwise. In addition, Wells Fargo Securities opinion does not address the fairness of the merger to, or any consideration received in connection therewith by, the holders of any other class of securities, creditors or other constituencies of GeoResources; nor does it address the fairness of the amount or nature of, or any other aspects relating to, any compensation to be received by any officers, directors or employees of any parties to the merger, or class of such persons, whether relative to the merger consideration or otherwise.

The summary set forth below does not purport to be a complete description of the analyses performed by Wells Fargo Securities, but describes, in summary form, the material analyses performed by Wells Fargo Securities in connection with Wells Fargo Securities opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Wells Fargo Securities made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Accordingly, the analyses reflected in the tables and described below must be considered as a whole, and considering any portion of the analyses, without considering all analyses together, could create a misleading or incomplete view of the processes underlying Wells Fargo Securities analyses and opinion.

GeoResources Financial Analyses

Discounted Cash Flow Analysis. Wells Fargo Securities performed an illustrative discounted cash flow analysis of GeoResources using the GeoResources Projections to determine an implied present value per share of GeoResources common stock. Using the GeoResources Projections and NYMEX strip pricing as of April 20, 2012, Wells Fargo Securities first calculated the projected after-tax unlevered free cash flows for GeoResources for the calendar years, which we refer to as CY, 2012 through 2027. Next, Wells Fargo Securities calculated the net present value of the illustrative terminal value of GeoResources in CY 2027 by applying a range of terminal value Earnings Before Interest, Tax, Depreciation, and Amortization, or EBITDA , multiples of 5.0x-7.0x to estimated GeoResources EBITDA for CY 2027. Wells Fargo Securities selected the terminal value EBITDA multiples used in this analysis based on its experience and professional judgment. Wells Fargo Securities discounted the terminal value and the cash flow streams to present values using discount rates ranging from 10% -12% to arrive at a range of illustrative enterprise values for GeoResources. Wells Fargo Securities derived the range of discount rates used in this analysis based on its experience and professional judgment taking into account GeoResources weighted average cost of capital, which Wells Fargo Securities calculated using standard corporate finance methodologies. Wells Fargo Securities then adjusted the range of illustrative enterprise values of GeoResources to account for GeoResources pro forma net debt outstanding as of December 31, 2011 to arrive at a range of implied equity values for GeoResources. Wells Fargo Securities then divided this range of implied equity values by 27.4 million (the total number of fully diluted shares of GeoResources common stock outstanding as provided by GeoResources management) to arrive at a range of illustrative value indications per share for GeoResources common stock of $17.34 to $21.73.

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Sum-of-the-Parts Analysis. Wells Fargo Securities also performed a sum-of-the-parts analysis which applies different valuation analyses to the different components of GeoResources assets and operations to arrive at a calculated value per share of GeoResources common stock. Wells Fargo Securities first performed an analysis to calculate an implied enterprise valuation of GeoResources proved reserves, taking into account various risk levels. In conducting this proved reserve valuation, Wells Fargo Securities conducted an analysis of the estimated pre-tax net present value of GeoResources potential future cash flows expected to be generated from GeoResources different categories of pro forma proved reserves as of January 1, 2012, including proved developed producing reserves, proved developed non-producing reserves and proved undeveloped reserves. The valuation was based upon reserve data obtained from the GeoResources Management Reserve Estimates which were compiled by GeoResources management utilizing NYMEX strip pricing as of April 20, 2012 and included the pro forma impact of reserve additions associated with assets acquired by GeoResources in February 2012 in the Austin Chalk trend of Texas. This analysis of the implied value of GeoResources proved reserves was performed under three scenarios, applying various risk levels to the three categories of proved reserves, which yielded implied enterprise values for GeoResources proved reserves ranging from $509.9 million to $584.3 million.

In calculating a sum-of-the-parts analysis of GeoResources, Wells Fargo Securities also considered the additional resource potential associated with GeoResources 72,000 net undeveloped acres in the Eagle Ford and Bakken shale formations. In conducting this analysis, Wells Fargo Securities utilized different value per acre metrics for each of GeoResources different project areas based on input from GeoResources management and Wells Fargo Securities professional judgment in addition to a review of precedent acreage transactions that have occurred in proximity to each of GeoResources project areas. The average value implied from this analysis ranged from $3,726 to $5,691 per undeveloped acre. This acreage value analysis yielded implied enterprise values associated with GeoResources undeveloped acreage ranging from $268.3 million to $409.8 million.

Wells Fargo Securities then added the range of implied enterprise values associated with GeoResources proved reserves to the range of implied enterprise values associated with GeoResources undeveloped acreage and adjusted these combined enterprise value amounts to account for net debt outstanding (less capitalized future general and administrative expenses), and hedges outstanding to arrive at a range of total implied equity values for GeoResources. This range of equity values was then divided by 27.4 million (the total number of fully diluted shares of GeoResources common stock outstanding as provided by GeoResources management) and resulted in a range of illustrative equity value indications per share of GeoResources common stock of $25.74 to $33.61.

Comparable Public Companies Analysis. Wells Fargo Securities reviewed and compared certain financial, operating and other information and financial multiples relating to GeoResources to corresponding financial, operating and other information and financial multiples for certain publicly-traded oil and gas exploration and production companies that Wells Fargo Securities, using its professional judgment and expertise, deemed comparable to GeoResources. Although none of these companies is directly comparable to GeoResources in all respects, Wells Fargo Securities selected these companies because they are publicly traded companies with operations that, for purposes of this analysis, may be considered similar to certain operations of GeoResources.

The selected companies included in the comparable companies analysis for GeoResources were:

Abraxas Petroleum Corporation

Approach Resources Inc.

Berry Petroleum Company

Bonanza Creek Energy, Inc.

Clayton Williams Energy, Inc.

Halcón Resources Corporation

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- Laredo Petroleum Holdings, Inc.
- Resolute Energy Corporation
- Rosetta Resources Inc.

Wells Fargo Securities calculated and compared the financial multiples for the selected companies based on public filings, equity research, the Halcón Projections and common stock closing prices on April 20, 2012 for the selected companies. Wells Fargo Securities calculated the financial multiples for GeoResources, based on public filings, the GeoResources Projections and the closing price of the common stock of GeoResources on April 20, 2012. With respect to each of the selected companies, Wells Fargo Securities calculated:

- total enterprise value, or TEV (which is calculated as the fully-diluted market value of common equity plus the book value of debt, plus minority interest, less cash), as a multiple of estimated CY 2012 EBTIDA and estimated CY 2013 EBITDA
- TEV as a multiple of estimated production (in $ per Boe/d) for CY 2012 and CY 2013
- TEV as a multiple of proved reserves (in $ per Boe)

The following table presents the results of this analysis:

	Selected Companies Range	**Selected Companies Median**	**GeoResources**
TEV/2012E EBITDA	4.8x - 11.2x	5.9x	4.8x
TEV/2013E EBITDA	2.7x - 7.4x	4.5x	3.3x
TEV/2012E Production ($ per Boe/d)	$70,379 - $151,099	$93,608	$90,038
TEV/2013E Production ($ per Boe/d)	$51,528 - $115,926	$79,059	$71,085
TEV/Proved Reserves ($ per Boe)	$11.99 - $25.83	$15.94	$25.68

Based on these analyses and utilizing its professional judgment and experience, Wells Fargo Securities applied, respectively, TEV/estimated CY 2012 EBITDA multiples ranging from 5.0x to 7.0x and TEV/estimated CY 2013 EBITDA multiples ranging from 3.5x to 5.0x derived from the comparable companies analysis to comparable financial and operating data for GeoResources included in the GeoResources Projections. By dividing these ranges of implied equity values by 27.4 million (the total number of fully diluted shares of GeoResources common stock outstanding as provided by GeoResources management), Wells Fargo Securities calculated ranges of illustrative value indications per share for GeoResources common stock of $32.10 to $44.56 and $32.01 to $45.31, based on GeoResources CY 2012 EBITDA and CY 2013 EBITDA in the GeoResources Projections, respectively.

Wells Fargo Securities also applied, respectively, TEV/estimated CY 2012 production multiples ranging from $90,000 to $105,000 per barrels of oil equivalent per day, or Boe/d, of production and TEV/estimated CY 2013 production multiples ranging from $65,000 to $90,000 Boe/d of production derived from the comparable companies analysis to comparable financial and operating data for GeoResources included in the GeoResources Projections. By dividing these ranges of implied equity values by 27.4 million (the total number of fully diluted shares of GeoResources common stock outstanding as provided by GeoResources management), Wells Fargo Securities calculated ranges of illustrative value indications per share for GeoResources common stock of $30.67 to $35.62 and $28.14 to $38.58, respectively.

Wells Fargo Securities also applied TEV/proved reserve multiples ranging from $16.00 to $26.00 per barrel of oil equivalent, or Boe, derived from the comparable companies analysis to comparable reserve data for GeoResources included in the GeoResources Management Reserves Estimates. By dividing this range of implied equity values by 27.4 million (the total number of fully diluted shares of GeoResources common stock outstanding as provided by GeoResources management), Wells Fargo Securities calculated a range of illustrative value indications per share for GeoResources common stock of $19.48 to $31.05.

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Selected Transactions Analysis. In conducting its valuation analysis using selected precedent transaction multiples, Wells Fargo Securities utilized an approach similar to the sum-of-the-parts analysis in which it valued GeoResources proved reserves and production separately from its undeveloped acreage. In determining an illustrative valuation range for GeoResources proved reserves and production, Wells Fargo Securities reviewed transactions with conventional assets deemed similar to GeoResources proved reserves and production. In determining an illustrative valuation range for GeoResources undeveloped acreage, Wells Fargo Securities reviewed transactions that have occurred in the Eagle Ford and Bakken shale formations that included a substantial undeveloped acreage component to the assets being acquired.

Conventional Asset Transactions. Wells Fargo Securities analyzed certain publicly available information relating to the following selected transactions involving companies with conventional oil and gas assets and operations, announced since January 2010. Wells Fargo Securities selected these transactions because they involved companies with conventional oil and gas assets and operations that are reasonably similar to those of GeoResources.

Selected Conventional Asset Transactions

Buyer	Seller	Date of Announcement
LINN Energy, LLC	BP America Production Company	February 2012
QR Energy, LP	Quantum Resources Fund	September 2011
LINN Energy, LLC	Panther Energy Company, LLC/ Red Willow Mid-Continent, LLC	May 2011
Legacy Reserves LP	Concho Resources Inc.	November 2010
LINN Energy, LLC	Undisclosed	September 2010
Undisclosed	Venoco, Inc.	April 2010
Quantum Resources Management LLC	Denbury Resources Inc.	April 2010
LINN Energy, LLC	Henry Savings LP/ Henry Savings Management LLC	March 2010
Undisclosed	Petrohawk Energy Corporation	March 2010

This analysis indicated the following:

Benchmark:	Range	Median
Production Value (in $ per Boe/d)	$60,976 - $109,929	$73,996
Proved Reserves Value (in $ per Boe)	$9.86 - $22.00	$15.55

Using its professional judgment and experience, Wells Fargo Securities selected (i) a reference range of $65,000 to $90,000 per Boe/d for production value derived from the selected conventional asset transactions and (ii) a reference range of $14.00 to $18.00 per Boe for proved reserves value derived from the selected conventional asset transactions.

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Selected Eagle Ford and Bakken Transactions. Wells Fargo Securities then analyzed certain information relating to the following selected transactions involving companies with assets and/or operations in the Eagle Ford and/or Bakken shale formations, announced since March 2010. Wells Fargo Securities selected these transactions because they involved companies with assets and/or operations in the Eagle Ford and/or Bakken shale formations that are reasonably similar to those of GeoResources.

Selected Eagle Ford Transactions

Buyer	Seller	Date of Announcement
Undisclosed	Whiting Petroleum Corporation	September 2011
GAIL (INDIA) LIMITED	Carrizo Oil & Gas, Inc.	September 2011
Toreador Resources Corporation	ZaZa Energy, LLC	August 2011
Undisclosed	Forest Oil Corporation	June 2011
Mitsui & Co., Ltd.	SM Energy Company	June 2011
Statoil Texas Onshore Properties LLC/ Talisman Energy USA Inc.	SM Energy Company	June 2011
Carrizo Oil & Gas, Inc.	Undisclosed	June 2011
Marathon Oil Corporation	Hilcorp Resources Holdings, LP	June 2011
Korea National Oil Corporation	Anadarko Petroleum Corporation	March 2011
Undisclosed	Escondido Resources II, LLC	March 2011
Chesapeake Energy Corporation	Antares Energy Ltd.	November 2010
CNOOC Limited	Chesapeake Energy Corporation	October 2010
Plains Exploration & Production Company	Undisclosed	October 2010
Reliance Industries Limited	Pioneer Natural Resources Company	June 2010
Kohlberg Kravis Roberts & Co. L.P.	Hilcorp Energy Company	June 2010
Goodrich Petroleum Corporation	BlackBrush Oil & Gas, L.P.	April 2010
Talisman Energy Inc.	Common Resources II, L.L.C.	March 2010
BP Plc	Lewis Energy Group	March 2010

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Selected Bakken Transactions

Buyer	Seller	Date of Announcement
Continental Resources, Inc.	Wheatland Oil Inc.	March 2012
Continental Resources, Inc.	Undisclosed	February 2012
Kodiak Oil & Gas Corp.	Mercuria Bakken, LLC	November 2011
Statoil ASA	Brigham Exploration Company	October 2011
Kodiak Oil & Gas Corp.	Undisclosed	September 2011
Crescent Point Energy Corp.	Undisclosed	August 2011
Kodiak Oil & Gas Corp.	Undisclosed	May 2011
LINN Energy, LLC	Concho Resources Inc.	February 2011
Magnum Hunter Resources Corporation	NuLoch Resources, Inc.	January 2011
Occidental Petroleum Corporation	Anschutz Exploration Corporation	December 2010
Hess Corporation	TRZ Energy, LLC	November 2010
The Williams Companies, Inc.	Undisclosed	November 2010
Enerplus Resources Fund	Peak Energy Resources, LLC	September 2010
Hess Corporation	American Oil & Gas, Inc.	July 2010
Enerplus Resources Fund	Undisclosed	June 2010

In performing the selected transaction analysis with respect to GeoResources Eagle Ford and Bakken assets and operations, Wells Fargo Securities applied various risk levels supplied by the management of GeoResources. Using its professional judgment and experience, Wells Fargo Securities selected a reference range of $3,726 to $5,691 per acre for the Eagle Ford and Bakken selected transactions.

Based on this review of selected conventional asset transactions, the Eagle Ford and Bakken assets and operations and its professional judgment and experience, Wells Fargo Securities then derived an implied enterprise value range for GeoResources using (i) a range of $65,000 to $90,000 per Boe/d with respect to production value for GeoResources estimated pro forma production for the quarter ended December 31, 2011 (pro forma to include production associated with assets acquired by GeoResources in February 2012 in the Austin Chalk trend of Texas) of 7,030 Boe/d and (ii) a range of $3,726 to $5,691 per acre with respect to net undeveloped acreage for GeoResources 72,000 net undeveloped acres. By dividing the range of implied equity values by 27.4 million (the total number of fully diluted shares of GeoResources common stock outstanding as provided by GeoResources management), Wells Fargo Securities calculated a range of illustrative value indications per share of GeoResources common stock of $27.40 to $38.96.

In addition, based on this review and its professional judgment and experience, Wells Fargo Securities then derived an implied enterprise value range for GeoResources using (i) a range of $14.00 to $18.00 per Boe with respect to proved reserves for GeoResources January 1, 2012 pro forma proved reserves (pro forma to include the proved reserves associated with assets acquired by GeoResources in February 2012 in the Austin Chalk trend of Texas and NYMEX strip pricing as of April 20, 2012) of 31.7 million barrels of oil equivalent, or MMboe, and (ii) a range of $3,726 to $5,691 per acre with respect to net undeveloped acreage for GeoResources 72,000 net undeveloped acres. By dividing this range of implied equity values by 27.4 million (the total number of fully diluted shares of GeoResources common stock outstanding as provided by GeoResources management), Wells Fargo Securities calculated a range of illustrative value indications per share of GeoResources common stock of $26.94 to $36.73.

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Although none of the companies, assets or operations involved in the selected transactions are directly comparable to GeoResources or its assets or operations in all respects, nor are any of the selected transactions directly comparable to the merger in all respects, Wells Fargo Securities chose the transactions in the selected transactions analysis because their profiles, for the purpose of analysis, may be considered similar to certain of GeoResources assets and operations.

Halcón Financial Analyses

Discounted Cash Flow Analysis. Wells Fargo Securities performed an illustrative discounted cash flow analysis of Halcón using the Halcón Projections to determine an implied present value per share of Halcón common stock. Using the Halcón Projections and NYMEX strip pricing as of April 20, 2012, Wells Fargo Securities first calculated the projected after-tax unlevered free cash flows for Halcón for CY 2012 through CY 2027. Next, Wells Fargo Securities calculated the net present value of the illustrative terminal value of Halcón in CY 2027 by applying a range of terminal value EBITDA multiples of 5.0x-7.0x to estimated Halcón EBITDA for CY 2027. Wells Fargo Securities selected the terminal value EBITDA multiples used in this analysis based on its experience and professional judgment. Wells Fargo Securities discounted the terminal value and the cash flow streams to present values using discount rates ranging from 10% -12% to arrive at a range of illustrative enterprise values for Halcón. Wells Fargo Securities derived the range of discount rates used in this analysis based on its experience and professional judgment taking into account Halcón s weighted average cost of capital, which Wells Fargo Securities calculated using standard corporate finance methodologies. Wells Fargo Securities then adjusted the range of illustrative enterprise values of Halcón to account for Halcón s pro forma net debt outstanding as of December 31, 2011 to arrive at a range of implied equity values for Halcón. By dividing this range of implied equity values by 241.6 million (the total number of fully diluted shares of Halcón common stock outstanding as provided by GeoResources management), to arrive at a range of illustrative equity value indications per share for Halcón common stock of $7.35 to $10.77.

Sum-of-the-Parts Analysis. Wells Fargo Securities also performed a sum-of-the-parts analysis which applies different valuation analyses to distinct components of Halcón s assets and operations to arrive at a calculated value per share of Halcón common stock. Wells Fargo Securities first performed an analysis to calculate an implied enterprise valuation of Halcón s proved reserves, taking into account various risk levels. In conducting this proved reserve valuation, Wells Fargo Securities conducted an analysis of the pre-tax net present value of Halcón s potential future cash flows expected to be generated from Halcón s different categories of proved reserves as of January 1, 2012, including proved developed producing reserves, proved developed non-producing reserves and proved undeveloped reserves. The valuation was based upon reserve data obtained from the Halcón Management Reserve Estimates which were compiled by GeoResources management utilizing NYMEX strip pricing as of April 20, 2012. This analysis of the implied value of Halcón s proved reserves was performed under three scenarios, applying various risk levels to the three categories of proved reserves, which yielded implied enterprise values for Halcón s proved reserves ranging from $317.3 million to $367.6 million.

In calculating a sum-of-the-parts analysis of Halcón, Wells Fargo Securities also considered Halcón s additional resource potential. Wells Fargo Securities assumed, based on estimates provided to GeoResources management by Halcón, that Halcón held 255,212 net undeveloped acres in the Utica, Woodbine, Mississippian Lime, Wilcox and other exploratory plays, which included acreage associated with Potential Halcón Acquisitions that were under contract or non-binding letters of intent. In conducting this analysis, Wells Fargo Securities utilized different value per acre ranges for each of Halcón s different project areas based on input from GeoResources management and Wells Fargo Securities professional judgment in addition to a review of precedent acreage transactions that have occurred in proximity to each of Halcón s project areas. The average value implied from this analysis ranged from $4,021 to $6,032 per undeveloped acre in the aggregate. In calculating its sum-of-the-parts analysis of Halcón, Wells Fargo Securities added such reference range of $4,021 to $6,032 per acre. This acreage value analysis yielded implied enterprise values associated with Halcón s undeveloped acreage totaling $1,026 million to $1,539 million.

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Wells Fargo Securities then added the range of implied enterprise values associated with Halcón s proved reserves to the range of implied enterprise values associated with Halcón s undeveloped acreage and adjusted these combined enterprise value amounts to account for net debt outstanding (less capitalized general and administrative expenses), and hedges outstanding to arrive at a range of total implied equity values for Halcón. This range of equity values was then divided by 241.6 million (the total number of fully diluted shares of Halcón common stock outstanding as provided by GeoResources management) and resulted in range of illustrative equity value indications per share of Halcón common stock of $6.00 to $8.34.

Comparable Public Companies Analysis. Wells Fargo Securities reviewed and compared certain financial, operating and other information and financial multiples relating to Halcón to corresponding financial, operating and other information and financial multiples for certain publicly-traded oil and gas exploration and production companies that Wells Fargo Securities, using its professional judgment and expertise, deemed comparable to Halcón. Although none of these companies is directly comparable to Halcón in all respects, Wells Fargo Securities selected these companies because they are publicly traded companies with operations that, for purposes of this analysis, may be considered similar to certain operations of Halcón.

The selected companies included in the comparable companies analysis for Halcón were:

- Abraxas Petroleum Corporation
- Approach Resources Inc.
- Berry Petroleum Company
- Bonanza Creek Energy, Inc.
- Clayton Williams Energy, Inc.
- GeoResources, Inc.
- Laredo Petroleum Holdings, Inc.
- Resolute Energy Corporation
- Rosetta Resources Inc.

Wells Fargo Securities calculated and compared the financial multiples for the selected companies based on public filings, equity research, the GeoResources Projections and common stock closing prices on April 20, 2012 for the selected companies. Wells Fargo Securities calculated the financial multiples for Halcón, based on public filings, the Halcón Projections and the closing price of the common stock of Halcón on April 20, 2012. With respect to each of the selected companies, Wells Fargo Securities calculated:

- TEV as a multiple of estimated CY 2013 EBITDA

TEV as a multiple of estimated production (in $ per Boe/d) for CY 2013

The following table presents the results of this analysis:

	Selected Companies Range	Selected Companies Median	Halcón
TEV/2013E EBITDA	2.7x - 7.4x	4.5x	4.2x
TEV/2013E Production ($ per Boe/d)	$51,528 - $115,926	$79,059	$60,345

Based on these analyses and utilizing its professional judgment and experience, Wells Fargo Securities applied TEV/estimated CY 2013 EBITDA multiples ranging from 4.0x to 5.5x derived from the comparable companies analysis to comparable financial and operating data for Halcón included in the Halcón Projections. By dividing this range of implied equity values by 241.6 million (the total number of fully diluted shares of Halcón common stock outstanding as provided by GeoResources management), Wells Fargo Securities calculated a range of illustrative value indications per share for Halcón common stock of $8.64 to $11.32 based on Halcón s estimated CY 2013 EBITDA.

Wells Fargo Securities also applied TEV/estimated CY 2013 production multiples ranging from $70,000 to $95,000 Boe/d of production derived from the comparable companies analysis to comparable financial and operating data for Halcón included in the Halcón Projections. By dividing this range of implied equity values by 241.6 million (the total number of fully diluted shares of Halcón common stock outstanding as provided by GeoResources management), Wells Fargo Securities calculated a range of illustrative value indications per share for Halcón common stock of $10.25 to $13.37, based on Halcón s estimated production for CY 2013.

Other Considerations.

Wells Fargo Securities prepared the analyses described above for purposes of providing its opinion to the board of directors of GeoResources as to the fairness, from a financial point of view, as of April 24, 2012, of the merger consideration to be received by the holders (other than Halcón and its affiliates) of shares of GeoResources common stock. The analyses do not purport to be appraisals or to reflect the prices at which any company or business might actually be sold or the prices at which any securities have traded or may trade at any time in the future. The analyses described above that are based upon forecasts of future results are not necessarily indicative of actual results in the future, which may be significantly more or less favorable than suggested by these analyses. These analyses are based upon numerous factors or events beyond the control of the parties or their respective advisors, and therefore are inherently subject to uncertainty. None of GeoResources, Halcón, Wells Fargo Securities or any other person assumes responsibility if future results are materially different from those forecast. The type and amount of consideration payable in the merger were determined through negotiations among the board of directors and management of each of GeoResources and Halcón. Wells Fargo Securities did not recommend any specific consideration to the board of directors of GeoResources or state that any given consideration constituted the only appropriate consideration for the merger. The decision to enter into the merger agreement was solely that of the board of directors of GeoResources. As described above, Wells Fargo Securities opinion and analyses were only one of many factors taken into consideration by the board of directors of GeoResources in evaluating the merger. Wells Fargo Securities analyses summarized above should not be viewed as determinative of the views of the board of directors or management of GeoResources with respect to the merger or the consideration to be received in the merger. Wells Fargo Securities was engaged to act as financial advisor to the board of directors of GeoResources and render a fairness opinion in connection with the merger and GeoResources has agreed to pay Wells Fargo Securities a fee for such services of approximately $5.5 million in the aggregate, $2.5 million of which was payable upon delivery of Wells Fargo Securities opinion and approximately $3.0 million of which will be payable upon consummation of the merger. The amount and timing of the payment of fees to Wells Fargo Securities was determined based upon negotiations between GeoResources and Wells Fargo Securities. GeoResources has also agreed to reimburse certain of Wells Fargo Securities expenses, to pay Wells Fargo Securities a fee in certain circumstances in connection with the termination of the merger and to indemnify it against certain liabilities that may arise out of its engagement.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC. Wells Fargo Securities and its affiliates provide a full range of financial advisory, securities and lending services in the ordinary course of business, for which Wells Fargo Securities and such affiliates receive customary fees. In that regard, Wells Fargo Securities or its affiliates in the past have provided and currently are providing financial services to GeoResources and its affiliates and Halcón and its affiliates, respectively, for which Wells Fargo Securities and such affiliates have received and expect to receive fees, including having acted as or currently acting as a lender, arranger, bookrunner and administrative agent under a credit facility of GeoResources, a provider of derivatives to GeoResources, a financial advisor to GeoResources in connection with other strategic transactions, and a lender, documentation agent and syndication agent under a credit facility of Halcón. Wells Fargo Securities and its affiliates may also in the future provide financial services to GeoResources and its affiliates and Halcón and its affiliates, respectively, for which Wells Fargo Securities and its affiliates may receive fees. In the ordinary course of business, Wells Fargo Securities and its affiliates may actively trade or hold the securities or financial instruments of GeoResources and Halcón for their own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities or financial instruments.

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Projected Financial Information

Halcón and GeoResources make public only very limited information as to future performance and neither company provides specific or detailed information as to earnings or performance over an extended period. However, for internal purposes and for use in connection with their respective evaluations of the proposed merger, Halcón management and GeoResources management each prepared certain projections of their company s future financial performance and made this information available to the other. Certain version of these projections were also made available to the financial advisors of Halcón and GeoResources for their consideration in preparing and delivering financial analyses and opinions to the respective boards of directors of Halcón and GeoResources. The prospective financial information discussed in this joint proxy statement/prospectus related to Halcón and GeoResources was not prepared with a view to public disclosure or with a view toward complying with the published guidelines established by the American Institute of Certified Public Accountants regarding prospective financial information. The internal financial forecasts (upon which these projections were based in part) are, in general, prepared solely for internal use and capital budgeting and other management decisions and are subjective in many respects and thus susceptible to interpretations and periodic revision based on commodity prices, industry conditions, actual experience, and business developments among other considerations. Neither Halcón s nor GeoResources independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the prospective financial information, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The projections reflect numerous assumptions made by management of both companies, including assumptions with respect to general business, economic, market and financial conditions and other matters, including the level of production of oil and natural gas, the amount and timing of capital expenditures and operating costs and the availability and cost of capital, all of which are difficult to predict and many of which are beyond the control of either company. Accordingly, there can be no assurance that the assumptions made in preparing these projections will prove accurate. Actual results may be materially greater or less than those contained in the projections. The inclusion of the projections in this joint proxy statement/prospectus should not be regarded as an indication that the projections will be predictive of actual future events, and the projections should not be relied upon as such.

The projections were disclosed to the other party and its representatives as a matter of due diligence, and are included in this joint proxy statement/prospectus on that account. Each of Halcón and GeoResources believes that the projections prepared by it were reasonable at the time they were made; however, neither Halcón nor GeoResources nor any of their respective representatives has made or makes any representation to any stockholder regarding the ultimate performance of Halcón or the GeoResources operations compared to the information contained in the projections, and none of them intends to update or otherwise revise the projections to reflect circumstances existing after the date when made or to reflect the occurrence of future events in the event that any or all of the assumptions underlying the projections are shown to be in error.

In the view of each company s management, the information was prepared on a reasonable basis, reflects the best estimates and judgments available during the period of financial analysis of each company, and presents, to the best of managements knowledge and belief, the expected course of action and the expected future financial performance of the companies. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this joint proxy/prospectus are cautioned not to place undue reliance on the prospective financial information.

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The following tables set forth certain summarized projected financial information for 2012 and 2013 as provided by each company s management to each other and their respective financial advisors. It should be noted that each management team s respective projections were based on their respective operational and financial expectations for their respective businesses, using strip commodity prices available immediately prior to the announcement of the transaction. The actual projections used by each of Halcón and GeoResources and their respective financial advisors in conducting their evaluation and other financial analyses may have differed materially from these projections as they may have contemplated different assumptions regarding pricing, production risking and prospective acreage development, among other factors. Specifically, for purposes of rendering its fairness opinion (see The Merger Opinion of Wells Fargo Securities to the GeoResources Board of Directors), GeoResources management instructed Wells Fargo Securities to use an estimated EBITDAX for 2013 of $431 million for Halcón.

	(in millions)	
Halcón (as provided by Halcón s management)	2012E	2013E
EBITDAX [1]	$ 94	$ 513
Discretionary Cash Flow [2]	$ 73	$ 473

GeoResources (as provided by GeoResources management)	2012E	2013E
EBITDAX [1]	$ 171	$ 243
Discretionary Cash Flow [2]	$ 166	$ 233

(1) EBITDAX represents earnings before interest, taxes, depreciation and amortization and exploration expense. EBITDAX is not a financial measure prepared in accordance with GAAP and should not be considered a substitute for net income (loss) or cash flow data prepared in accordance with GAAP.

(2) Discretionary Cash Flow represents EBITDAX less current taxes, exploration expense and interest expense.

Interests of GeoResources Directors and Executive Officers in the Merger

In considering the recommendation of the GeoResources board of directors with respect to the approval and adoption of the merger agreement, GeoResources stockholders should be aware that certain named executive officers and directors of GeoResources have interests in the merger that are in addition to the interests of other stockholders of GeoResources generally. The named executive officers of GeoResources, for example, are parties to the GeoResources Change in Control Plan that, in certain circumstances and among other benefits, provides for change in control payments following a change in control of GeoResources. Additionally, the GeoResources Stock Plan provides for the accelerated vesting of stock options and restricted stock unit awards following a change in control of GeoResources.

Treatment of Equity Awards

Treatment of GeoResources Stock Options. The GeoResources Stock Plan provides for the accelerated vesting of unvested stock options to purchase GeoResources common stock upon a change of control, which event would occur upon closing of the merger. Further, the merger agreement provides that outstanding GeoResources stock options may either be (i) exercised immediately prior to the effective time of the merger and converted into the right to receive the merger consideration, or (ii) converted into options to purchase Halcón common stock. As of the date of this joint proxy statement/prospectus, all outstanding GeoResources stock options have been conditionally exercised and will be converted into the right to receive the merger consideration.

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The following table sets forth, for each of GeoResources named executive officers and non-employee directors, as applicable, the number of shares of GeoResources common stock subject to unvested GeoResources stock options and the approximate value of the unvested GeoResources stock options, assuming continued service through the effective time of the merger and assuming that the effective time of the merger occurs on August 2, 2012. Consistent with Item 402(t) of Regulation S-K promulgated by the SEC, the dollar amounts set forth below are determined with reference to $37.26, the average closing price per share of GeoResources common stock for the first five days following the public announcement of the merger on April 25, 2012. The table does not include any GeoResources stock option awards scheduled to vest prior to August 2, 2012.

Name	Number of Shares Subject to GeoResources Stock Options that will Accelerate (#)	Estimated Total Value [1] ($)
Named Executive Officers:		
Frank A. Lodzinski	25,000	700,250
Howard E. Ehler	12,500	350,125
Robert J. Anderson	12,500	350,125
Timothy D. Merrifield	10,000	280,100
Francis M. Mury	12,500	350,125
Non-Employee Directors:		
Jay F. Joliat	10,000	280,100
Bryant W. Seaman, III	30,000	367,800
Michael A. Vlasic	10,000	280,100
Nicholas L. Voller	10,000	280,100
Donald J. Whelley	20,000	370,200

(1) Values for each stock option are calculated by multiplying the number of shares of GeoResources common stock subject to the option by $37.26 per share of GeoResources common stock less the exercise price per share.

Treatment of GeoResources Restricted Stock Units. At the effective time, as provided by the GeoResources Stock Plan, each GeoResources restricted stock unit which is outstanding immediately prior to the effective time, and that has not then vested and been settled, shall vest and be settled by GeoResources through the issuance to each holder thereof of one share of GeoResources common stock in respect of each such GeoResources restricted stock unit. Each share of GeoResources common stock issued in respect of a GeoResources restricted stock unit will receive the merger consideration.

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The following table sets forth, for each of GeoResources named executive officers and non-employee directors, as applicable, the number of shares of GeoResources common stock subject to unvested GeoResources restricted stock unit awards and the approximate value of the unvested GeoResources restricted stock units, assuming continued service through the effective time of the merger and assuming that the effective time of the merger occurs on August 2, 2012. Consistent with Item 402(t) of Regulation S-K promulgated by the SEC, the dollar amounts set forth below are determined with reference to $37.26, the average closing price per share of GeoResources common stock for the first five days following the public announcement of the merger on April 25, 2012. The table does not include any GeoResources restricted stock units scheduled to vest and settle prior to August 2, 2012.

Name	Number of Shares Subject to GeoResources Restricted Stock Units that will Accelerate (#)	Estimated Total Value [1] ($)
Named Executive Officers:		
Frank A. Lodzinski	41,655	1,552,065
Howard E. Ehler	21,930	817,112
Robert J. Anderson	28,715	1,069,921
Timothy D. Merrifield	24,715	920,881
Francis M. Mury	24,715	920,881
Non-Employee Directors:		
Jay F. Joliat	1,500	55,890
Bryant W. Seaman, III	5,130	191,144
Michael A. Vlasic	1,500	55,890
Nicholas L. Voller	1,500	55,890
Donald J. Whelley	2,380	88,679

(1) Values for restricted stock units are calculated by multiplying the number of units subject to the award by $37.26 per share of GeoResources common stock.

Change in Control Plan

Pursuant to the terms of the GeoResources Change in Control Plan, each of the named executive officers will receive an amount equal to his annual base compensation rate for services paid by GeoResources to the named executive officer at the time immediately prior to the merger, which is payable in one lump sum on the first payroll after the 55th day following the effective time of the merger, which is a change in control as defined in the plan. These payments are based on a single trigger and are not contingent on the named executive officer s separation from service after the effective time of the merger. Additionally, each of the named executive officers will be reimbursed for his COBRA premiums for 12 months upon the consummation of the merger and a separation from service (as defined in the GeoResources Change in Control Plan).

Indemnification

The merger agreement provides that, after the effective time of the merger, the organizational documents of the surviving company in the merger shall contain provisions with respect to exculpation, indemnification and advancement of expenses no less favorable than the provisions set forth in the articles of incorporation and bylaws of GeoResources as of the date of the merger agreement to individuals who at any time from and after the date of the merger agreement up to and including the effective time of the merger were directors, officers and employees of GeoResources or any of its subsidiaries.

In addition, the merger agreement provides that at the effective time of the merger, Halcón or its subsidiaries shall maintain directors and officers liability insurance under a policy and with a company reasonably acceptable to GeoResources covering, for a period of six years after the effective time, the directors and officers of GeoResources and its subsidiaries who are or at any time prior to the effective time were covered by GeoResources existing directors and officers liability insurance with respect to claims arising from facts or events that occurred before the effective time (whether claims, actions or other proceedings relating thereto are commenced, asserted or claimed before or after the effective time), with coverage substantially similar to such directors and officers liability insurance in effect on the date of the merger agreement.

New Arrangements with Halcón

In the merger agreement, Halcón has acknowledged that a termination of employment of Messrs. Lodzinski and Ehler will occur in connection with the merger. As a consequence and pursuant to the GeoResources Change in Control Plan, these individuals will also become entitled to receive reimbursement for the full cost of 12 months of continued coverage pursuant to COBRA, for the participant and the participant s eligible dependents, with substantially similar coverage to GeoResources group health plans in which the participant participated immediately prior to the merger.

Lodzinski Non-Compete Agreement. Mr. Lodzinski entered into a Confidential Information, Non-Competition and Non-Solicit Agreement dated as of April 24, 2012 with Halcón, which is conditioned upon the consummation of the merger. In this agreement, Mr. Lodzinski has agreed, among other things not to (i) disclose certain confidential information related to GeoResources and its properties or (ii) for six months after the effective time of the merger, engage in certain competitive activities within a specified proximity of GeoResources or Halcón s oil and gas interests as of the effective time of the merger or solicit employees of GeoResources or Halcón or otherwise induce those employees, or customers of GeoResources or Halcón, to terminate their relationship with GeoResources or Halcón. Mr. Lodzinski did not receive any compensation for entering into this agreement.

Halcón Severance Plan. As soon as practicable after the effective time, Halcón will adopt or will cause one of its wholly owned subsidiaries to adopt a written severance plan for certain employees of GeoResources (the Halcón Severance Plan). However, none of named executive officers of GeoResources are eligible to participate in the Halcón Severance Plan.

Merger-Related Compensation

The following table sets forth the information required by Item 402(t) of Regulation S-K promulgated by the SEC, regarding certain compensation which each of GeoResources named executive officers may receive that is based on or that otherwise relates to the merger. The merger-related compensation payable to GeoResources named executive officers is subject to a non-binding advisory vote of GeoResources stockholders, as described under GeoResources Special Meeting Vote Required Advisory Vote on Compensation Payable in Connection with the Merger on page .

The merger will qualify as a change in control under applicable agreements and/or plans of GeoResources. Assuming the merger is completed and the named executive officers are entitled to full benefits available under the GeoResources Change in Control Plan (assuming solely for purposes of the health care benefits, the named executive officers are also terminated on August 2, 2012 in a separation of service), the named executive officers would receive approximately the amounts set forth in the table below, based on a per share price of GeoResources common stock of $37.26, the average closing price per share of GeoResources common stock for the first five days following the public announcement of the merger on April 25, 2012, as required pursuant to Item 402(t) of Regulation S-K promulgated by the SEC. The amounts indicated below are estimates based on multiple assumptions that may or may not actually occur, including assumptions described in this joint proxy statement/prospectus. As a result, the actual amounts, if any, to be received by a named executive officer may differ from the amounts set forth below. Further, the amounts set forth below are duplicative of, and not in addition to, the amounts already discussed above under Treatment of Equity Awards.

Merger-Related Compensation Table

Name	Cash [1] ($)	Equity [2] ($)	Pension/ NQDC ($)	Perquisites / Benefits [3] ($)	Tax Reimbursement ($)	Other ($)	Total [2] [3] ($)
Frank A. Lodzinski [4]	450,000	2,252,315		15,000			2,717,315
Howard E. Ehler	225,000	1,167,237		15,000			1,407,237
Robert J. Anderson	250,000	1,420,046		15,000			1,685,046
Timothy D. Merrifield	230,000	1,200,981		15,000			1,445,981
Francis M. Mury	230,000	1,271,006		15,000			1,516,006

(1) These amounts represent single trigger benefits. Pursuant to the terms of the GeoResources Change in Control Plan, each of the named executive officers will receive an amount equal to his annual base compensation rate for services paid by GeoResources to the named executive officer at the time immediately prior to the effective time of the merger, which is payable in one lump sum on the first payroll after the 55th day following the merger, which is a change in control. The named executive officer will be required to sign a general release of claims, which will contain customary confidentiality and non-disparagement provisions not to exceed 52 weeks. These payments are not contingent on the named executive officer s separation from service after the effective time of the merger.

(2) Represents the value of the single trigger benefit for the accelerated vesting of all unvested equity at the effective time of the merger, as shown in the two tables above under the heading Treatment of Equity Awards beginning on page .

(3) These amounts represent double trigger benefits. Pursuant to the terms of the GeoResources Change in Control Plan, each of the named executive officers will be reimbursed for his COBRA premiums for 12 months upon the consummation of the merger and a separation from service (as defined in the GeoResources Change in Control Plan). The amount of such payments upon (i) the single trigger of the consummation of the merger and (ii) the double trigger of (A) the consummation of the merger and (B) a separation from service, are set forth below:

Name	Single Trigger ($)	Double Trigger ($)
Frank A. Lodzinski		15,000
Howard E. Ehler		15,000
Robert J. Anderson		15,000
Timothy D. Merrifield		15,000
Francis M. Mury		15,000

(4) No compensation has been or will be paid to Mr. Lodzinski for the non-compete agreement he entered into with Halcón.

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Halcón Board of Directors and Management Following the Merger

Halcón has agreed to take all necessary action to cause, effective at the effective time of the merger, the number of directors on the Halcón board of directors to be increased from 10 to 11 and one individual, as mutually agreed by Halcón and GeoResources, to be elected to the Halcón board of directors as a Class A director in connection with the consummation of the merger. Following completion of the merger, the Halcón s executive officers will retain their current roles within the combined company. In the event that the merger is not completed, the foregoing director election will not take effect.

Regulatory Filings and Approvals Required to Complete the Merger

We are not aware of any material governmental or regulatory approval required for the completion of the merger and compliance with the applicable corporate law of the States of Colorado and Delaware.

Treatment of GeoResources Stock Options and Restricted Stock Units

Stock Options

Each option granted by GeoResources to purchase shares of GeoResources common stock pursuant to the GeoResources Stock Plan that is outstanding and unexercised immediately prior to the effective time of the merger shall become fully vested and exercisable immediately prior to the effective time of the merger and may be exercised by the holder of the option in accordance with the GeoResources Stock Plan, including on a net cashless basis, and converted into the right to receive the merger consideration. As of the date of this joint proxy statement/prospectus, all outstanding GeoResources stock options have been conditionally exercised and will be converted into the right to receive the merger consideration.

Restricted Stock Units

Each restricted stock unit which was issued pursuant to GeoResources stock plans and is outstanding immediately prior to the effective time, and that has not then vested and been settled, shall vest and be settled by GeoResources through the issuance to each holder thereof of one share of GeoResources common stock in respect of each such restricted stock unit (subject to any applicable withholding). Each share of GeoResources common stock issued with respect to such former restricted stock unit shall be converted into the right to receive the merger consideration.

Treatment of GeoResources Warrants

Each warrant to purchase shares of GeoResources common stock that is outstanding and unexercised immediately prior to the effective time of the merger, whether vested or unvested, shall, in connection with the merger, be assumed by Halcón and be converted into a warrant to acquire Halcón common stock (the Share Portion) and cash (the Cash Portion). Each assumed warrant shall continue to have, and be subject to, the same terms and conditions of the applicable agreement evidencing such warrant, as so assumed and converted, immediately prior to the effective time (including without limitation vesting schedules and vesting commencement dates), except that, as set forth in the merger agreement:

(i) the Share Portion of each assumed warrant shall (subject to the vesting provisions thereof) be exercisable (A) for that number of whole shares of Halcón common stock equal to the product obtained by multiplying the number of shares of GeoResources common stock that were issuable upon exercise of such assumed and converted warrant immediately prior to the effective time by 1.932, and rounded up to the nearest whole share and (B) for an exercise price per share of Halcón common stock equal to (1) the quotient obtained by dividing the exercise price per share of GeoResources common stock at which such assumed and converted warrant was exercisable immediately prior to the effective time by 1.932, multiplied by (2) 0.5, and rounding up to the nearest whole cent;

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(ii) the Cash Portion of each assumed warrant shall (subject to the vesting provisions thereof) be exercisable (A) for that amount of cash equal to the product obtained by multiplying the number of shares of GeoResources common stock that were issuable upon exercise of such assumed and converted warrant immediately prior to the effective time by $20.00, and rounded up to the nearest whole cent and (B) for an exercise price per dollar of the Cash Portion equal to (1) the product obtained by multiplying the exercise price per share of GeoResources common stock at which such amended and converted warrant was exercisable immediately prior to the effective time by 0.5, divided by (2) $20.00, and rounded up to the nearest whole cent; and

(iii) neither the Cash Portion nor the Share Portion of each unexpired and unexercised assumed warrant shall be exercisable independent of the other.

GeoResources has agreed under the merger agreement to use its reasonable best efforts to enter into agreements with the holders of warrants satisfactory to Halcón that provide for the exercise or cancellation of such warrant prior to, or contingent upon, the closing. With respect to any warrants so exercised, each share of GeoResources common stock issued upon such exercise shall be deemed issued and outstanding immediately prior to the effective time of the merger and entitled to receive the merger consideration.

Dividends

The merger agreement provides that, prior to the effective time:

- GeoResources or any of its subsidiaries may not declare, set aside or pay any dividend or other distribution, whether payable in cash, stock or any other property or right, with respect to its capital stock, except that GeoResources may permit any direct or indirect wholly-owned subsidiary to do any of the foregoing; and

- Halcón or any of its subsidiaries may not declare, set aside or pay any dividend or other distribution, whether payable in cash, stock or any other property or right, with respect to its capital stock except that Halcón may permit any direct or indirect wholly-owned subsidiary to do any of the foregoing.

Listing of Halcón Shares

It is a condition to completion of the merger that the shares of Halcón common stock issuable in the merger be authorized for listing on the New York Stock Exchange, subject to official notice of issuance.

De-Listing and Deregistration of GeoResources Common Stock

If the merger is completed, GeoResources common stock will cease to be traded on the NASDAQ Global Select Market and GeoResources shares will be deregistered under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act.

Appraisal Rights

GeoResources is incorporated under Colorado law. Under Article 113 of the CBCA GeoResources stockholders have the right to dissent from the proposed merger and, subject to certain conditions provided for under the Colorado dissenters rights statutes, are entitled to receive payment of the fair value of their GeoResources common stock. GeoResources stockholders will be bound by the terms of the merger unless they dissent by complying with all of the requirements of the Colorado dissenters rights statutes.

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The following is a summary of dissenters rights available to GeoResources stockholders, which summary is not intended to be a complete statement of applicable Colorado law and is qualified in its entirety by reference to Article 113 of the CBCA, which is set forth in its entirety as Annex F to this joint proxy statement/prospectus.

Right to Dissent

GeoResources stockholders are entitled to dissent from the merger and obtain payment of the fair value of their shares if and when the merger is consummated. Fair value, with respect to a dissenter s shares, means the value of the shares immediately before the effective time of the merger, excluding any appreciation or depreciation in anticipation of the merger except to the extent that exclusion would be inequitable. Under Article 113 of the CBCA, a stockholder entitled to dissent and obtain payment for his, her or its shares may not also challenge the corporate action creating the right to dissent unless the action is unlawful or fraudulent with respect to the stockholder or the corporation.

Under Section 7-113-103 of the CBCA a record stockholder may assert dissenters rights as to fewer than all shares registered in the record stockholder s name only if the record stockholder dissents with respect to all shares beneficially owned by any one person and causes the corporation to receive written notice which states such dissent and the name, address and federal taxpayer identification number, if any, of each person on whose behalf the record stockholder asserts dissenters rights.

Section 7-113-103(2) of the CBCA provides that a beneficial stockholder may assert dissenters rights as to the shares held on the beneficial stockholder s behalf only if (a) the beneficial stockholder causes the corporation to receive the record stockholder s written consent to the dissent not later than the time the beneficial stockholder asserts dissenters rights and (b) the beneficial stockholder dissents with respect to all shares beneficially owned by the beneficial stockholder.

GeoResources will require that, when a record stockholder dissents with respect to the shares held by any one or more beneficial stockholders, each such beneficial stockholder must certify to GeoResources that the beneficial stockholder has asserted, or will timely assert, dissenters rights as to all such shares as to which there is no limitation on the ability to exercise dissenters rights.

Procedure for Exercise of Dissenters Rights

The notice accompanying this joint proxy statement/prospectus states that stockholders of GeoResources are entitled to assert dissenters rights under Article 113 of the CBCA. A GeoResources stockholder who wishes to assert dissenters rights shall: (a) cause GeoResources to receive before the vote is taken on the merger at the special meeting, written notice of the stockholder s intention to demand payment for the stockholder s shares if the merger is effectuated; and (b) not vote the shares in favor of the merger. A GeoResources stockholder who does not satisfy the foregoing requirements will not be entitled to demand payment for his or her shares under Article 113 of the CBCA.

Dissenters Notice

If the merger agreement and the merger are approved and adopted at the special meeting, GeoResources will send written notice to dissenters who are entitled to demand payment for their shares. The notice required by GeoResources will be given no later than 10 days after the effective time and will: (a) state that the merger was authorized and state the effective time or proposed effective date of the merger, (b) set forth an address at which GeoResources will receive payment demands and the address of a place where certificates must be deposited, (c) supply a form for demanding payment, which form shall request a dissenter to state an address to which payment is to be made, (d) set the date by which GeoResources must receive the payment demand and certificates for shares, which date will not be less than 30 days after the date the notice is given, (e) state that if a record GeoResources stockholder dissents with respect to the shares held by any one or more beneficial

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stockholders each such beneficial stockholder must certify to GeoResources that the beneficial stockholder and the record stockholder or record stockholders of all shares owned beneficially by the beneficial stockholder have asserted, or will timely assert, dissenters rights as to all such shares as to which there is no limitation of the ability to exercise dissenters rights, and (f) be accompanied by a copy of Article 113 of the CBCA.

Procedure to Demand Payment

A stockholder who is given a dissenters notice to assert dissenters rights will, in accordance with the terms of the dissenters notice, (a) cause GeoResources to receive a payment demand (which may be a demand form supplied by GeoResources and duly completed or other acceptable writing) and (b) deposit the stockholder s stock certificates. A stockholder who demands payment in accordance with the foregoing retains all rights of a stockholder, except the right to transfer the shares until the effective time, and has only the right to receive payment for the shares after the"vertical-align:bottom;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

986

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Risk-sharing investments

(209
)

(513
)

(348
)

(718
)
Risk management derivatives, net

16,742

(17,838
)

60,524

(22,965
)
Impairments on AFS securities

(56
)

(127
)

(56
)

(244
)

Total investment fair value changes, net

$
889

$
8,115

$
2,498

$
9,666

Other Income, Net

MSRs

$
(745
)

$
(6,421
)

$
2,147

$
(9,491
)
MSR risk management derivatives, net

(1,122
)

3,040

(6,261
)

2,291

Total other income, net (3)

$
(1,867
)

$
(3,381
)

$
(4,114
)

$
(7,200
)
Total Market Valuation Gains, Net

$
8,536

$
15,614

$
34,136

$
30,743

(1) Mortgage banking activities, net presented above does not include fee income or provisions for repurchases that are components of Mortgage banking activities, net presented on our consolidated statements of income, as these amounts do not represent market valuation changes.
(2) Includes changes in fair value of the residential loans held-for-investment, REO and the ABS issued at the entities, which netted together represent the change in value of our retained investments at the consolidated VIEs.
(3) Other income, net presented above does not include net MSR fee income or provisions for repurchases for MSRs, as these amounts do not represent market valuation adjustments.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

Note 5. Fair Value of Financial Instruments - (continued)

At June 30, 2018, our valuation policy and processes had not changed from those described in our Annual Report on Form 10-K for the year ended December 31, 2017. The following table provides quantitative information about the significant unobservable inputs used in the valuation of our Level 3 assets and liabilities measured at fair value.

Table 5.7 – Fair Value Methodology for Level 3 Financial Instruments

June 30, 2018 (Dollars in Thousands, except Input Values)	Fair Value	Unobservable Input	Input Values Range			Weighted Average	
Assets							
Residential loans, at fair value:							
Jumbo fixed-rate loans	$2,676,132	Whole loan spread to TBA price	$2.00	-$3.28		$2.97	
		Whole loan spread to swap rate	90	-206	bps	202	bps
Jumbo hybrid loans	276,844	Prepayment rate (annual CPR)	15	-15	%	15	%
		Whole loan spread to swap rate	75	-160	bps	133	bps
Jumbo loans committed to sell	464,905	Whole loan committed sales price	$100.58	-$101.94		$101.45	
Loans held by Legacy Sequoia (1)	592,029	Liability price		N/A		N/A	
Loans held by Sequoia Choice (1)	1,481,145	Liability price		N/A		N/A	
Trading and AFS securities	1,453,936	Discount rate	3	-14	%	6	%
		Prepayment rate (annual CPR)	—	-50	%	9	%
		Default rate	—	-27	%	2	%
		Loss severity	—	-40	%	22	%
MSRs	64,674	Discount rate	11	-43	%	11	%
		Prepayment rate (annual CPR)	6	-26	%	7	%
		Per loan annual cost to service	$82	-$82		$82	
Guarantee asset	2,936	Discount rate	11	-11	%	11	%
		Prepayment rate (annual CPR)	8	-8	%	8	%
REO	1,841	Loss severity	13	-43	%	29	%
Liabilities							
ABS issued (1)	1,929,662	Discount rate	3	-15	%	4	%
		Prepayment rate (annual CPR)	8	-32	%	19	%
		Default rate	—	-8	%	2	%
		Loss severity	20	-60	%	21	%

Loan purchase commitments, net (2)	1,710	MSR multiple	1.0	-5.3	x	3.5	x
		Pull-through rate	13	-100	%	72	%
		Whole loan spread to TBA price	$2.25	-$3.28		$3.28	
		Whole loan spread to swap rate - fixed rate	90	-206	bps	204	bps
		Prepayment rate (annual CPR)	15	-15	%	15	%
		Whole loan spread to swap rate - hybrid	75	-140	bps	107	bps

(1) The fair value of the loans held by consolidated Sequoia entities was based on the fair value of the ABS issued by these entities, which we determined were more readily observable, in accordance with accounting guidance for collateralized financing entities.

(2) For the purpose of this presentation, loan purchase commitment assets and liabilities are presented net.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 5. Fair Value of Financial Instruments - (continued)

Determination of Fair Value
A description of the instruments measured at fair value as well as the general classification of such instruments pursuant to the Level 1, Level 2, and Level 3 valuation hierarchy is listed herein. We generally use both market comparable information and discounted cash flow modeling techniques to determine the fair value of our Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the preceding table. Accordingly, a significant increase or decrease in any of these inputs – such as anticipated credit losses, prepayment rates, interest rates, or other valuation assumptions – in isolation would likely result in a significantly lower or higher fair value measurement.
Residential loans at Redwood
Estimated fair values for residential loans are determined using models that incorporate various observable inputs, including pricing information from whole loan sales and securitizations. Certain significant inputs in these models are considered unobservable and are therefore Level 3 in nature. Pricing inputs obtained from market whole loan transaction activity include indicative spreads to indexed to be announced ("TBA") prices and indexed swap rates for fixed-rate loans and indexed swap rates for hybrid loans (Level 3). Pricing inputs obtained from market securitization activity include indicative spreads to indexed TBA prices for senior residential mortgage-backed securities ("RMBS") and indexed swap rates for subordinate RMBS, and credit support levels (Level 3). Other unobservable inputs also include assumed future prepayment rates. Observable inputs include benchmark interest rates, swap rates, and TBA prices. These assets would generally decrease in value based upon an increase in the credit spread, prepayment speed, or credit support assumptions.
Residential loans at consolidated Sequoia entities
We have elected to account for the consolidated Sequoia securitization entities as collateralized financing entities ("CFEs") in accordance with GAAP. A CFE is a variable interest entity that holds financial assets and issues beneficial interests in those assets, and these beneficial interests have contractual recourse only to the related assets of the CFE. Accounting guidance for CFEs allow companies to elect to measure both the financial assets and financial liabilities of a CFE using the more observable of the fair value of the financial assets or fair value of the financial liabilities. Pursuant to this guidance, we use the fair value of the ABS issued by the Sequoia CFEs (which we determined to be more observable) to determine the fair value of the loans held at these entities, whereby the net assets we consolidate in our financial statements related to these entities represent the estimated fair value of our retained interests in the Sequoia CFEs.
Real estate securities
Real estate securities include residential, commercial, and other asset-backed securities that are generally illiquid in nature and trade infrequently. Significant inputs in the valuation analysis are predominantly Level 3 in nature, due to the lack of readily available market quotes and related inputs. For real estate securities, we utilize both market comparable pricing and discounted cash flow analysis valuation techniques. Relevant market indicators that are factored into the analysis include bid/ask spreads, the amount and timing of credit losses, interest rates, and collateral prepayment rates. Estimated fair values are based on applying the market indicators to generate discounted cash flows (Level 3). These cash flow models use significant unobservable inputs such as a discount rate, prepayment rate, default rate and loss severity. The estimated fair value of our securities would generally decrease based upon an increase in default rates, loss severities, or a decrease in prepayment rates.
As part of our securities valuation process, we request and consider indications of value from third-party securities dealers. For purposes of pricing our securities at June 30, 2018, we received dealer price indications on 75% of our securities, representing 84% of our carrying value. In the aggregate, our internal valuations of the securities for which

we received dealer price indications were within 1% of the aggregate average dealer valuations. Once we receive the price indications from dealers, they are compared to other relevant market inputs, such as actual or comparable trades, and the results of our discounted cash flow analysis. In circumstances where relevant market inputs cannot be obtained, increased reliance on discounted cash flow analysis and management judgment are required to estimate fair value.

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Note 5. Fair Value of Financial Instruments - (continued)

Derivative assets and liabilities

Our derivative instruments include swaps, swaptions, TBAs, financial futures, loan purchase commitments ("LPCs"), and forward sale commitments ("FSCs"). Fair values of derivative instruments are determined using quoted prices from active markets, when available, or from valuation models and are supported by valuations provided by dealers active in derivative markets. Fair values of TBAs and financial futures are generally obtained using quoted prices from active markets (Level 1). Our derivative valuation models for swaps and swaptions require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, and correlations of certain inputs. Model inputs can generally be verified and model selection does not involve significant management judgment (Level 2).

LPC and FSC fair values for jumbo loans are estimated based on the estimated fair values of the underlying loans (as described in "Residential loans at Redwood" above). In addition, fair values for LPCs are estimated based on the probability that the mortgage loan will be purchased (the "Pull-through rate") (Level 3).

For other derivatives, valuations are based on various factors such as liquidity, bid/ask spreads, and credit considerations for which we rely on available market inputs. In the absence of such inputs, management's best estimate is used (Level 3).

MSRs

MSRs include the rights to service jumbo and conforming residential mortgage loans. Significant inputs in the valuation analysis are predominantly Level 3, due to the nature of these instruments and the lack of readily available market quotes. Changes in the fair value of MSRs occur primarily due to the collection/realization of expected cash flows, as well as changes in valuation inputs and assumptions. Estimated fair values are based on applying the inputs to generate the net present value of estimated future MSR income (Level 3). These discounted cash flow models utilize certain significant unobservable inputs including market discount rates, assumed future prepayment rates of serviced loans, and the market cost of servicing. An increase in these unobservable inputs would generally reduce the estimated fair value of the MSRs.

As part of our MSR valuation process, we received a valuation estimate from a third-party valuations firm. In the aggregate, our internal valuation of the MSRs were within 2% of the third-party valuation.

FHLBC stock

Our Federal Home Loan Bank ("FHLB") member subsidiary is required to purchase Federal Home Loan Bank of Chicago ("FHLBC") stock under a borrowing agreement between our FHLB-member subsidiary and the FHLBC. Under this agreement, the stock is redeemable at face value, which represents the carrying value and fair value of the stock (Level 2).

Guarantee asset

The guarantee asset represents the estimated fair value of cash flows we are contractually entitled to receive related to a risk-sharing arrangement with Fannie Mae. Significant inputs in the valuation analysis are Level 3, due to the nature of this asset and the lack of market quotes. The fair value of the guarantee asset is determined using a discounted cash flow model, for which significant unobservable inputs include assumed future prepayment rates and market discount rate (Level 3). An increase in prepayment rates or discount rate would generally reduce the estimated fair value of the guarantee asset.

Pledged collateral

Pledged collateral consists of cash and U.S. Treasury securities held by a custodian in association with certain agreements we have entered into. Treasury securities are carried at their fair value, which is determined using quoted prices in active markets (Level 1).

Cash and cash equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less. Fair values equal carrying values (Level 1).

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Note 5. Fair Value of Financial Instruments - (continued)

Restricted cash
Restricted cash primarily includes interest-earning cash balances related to risk-sharing transactions with the Agencies, cash held in association with borrowings from the FHLBC, and cash held at consolidated Sequoia entities for the purpose of distribution to investors and reinvestment. Due to the short-term nature of the restrictions, fair values approximate carrying values (Level 1).
Accrued interest receivable and payable
Accrued interest receivable and payable includes interest due on our assets and payable on our liabilities. Due to the short-term nature of when these interest payments will be received or paid, fair values approximate carrying values (Level 1).
REO
REO includes properties owned in satisfaction of foreclosed loans. Fair values are determined using available market quotes, appraisals, broker price opinions, comparable properties, or other indications of value (Level 3).
Margin receivable
Margin receivable reflects cash collateral we have posted with our various derivative and debt counterparties as required to satisfy margin requirements. Fair values approximate carrying values (Level 2).
Short-term debt
Short-term debt includes our credit facilities that mature within one year. As these borrowings are secured and subject to margin calls and as the rates on these borrowings reset frequently to market rates, we believe that carrying values approximate fair values (Level 2). Additionally, at December 31, 2017, short-term debt included unsecured convertible senior notes with a maturity of less than one year. The fair value of the convertible notes is determined using quoted prices in generally active markets (Level 2).
ABS issued
ABS issued includes asset-backed securities issued through the Legacy Sequoia and Sequoia Choice securitization entities. These instruments are generally illiquid in nature and trade infrequently. Significant inputs in the valuation analysis are predominantly Level 3, due to the nature of these instruments and the lack of readily available market quotes. For ABS issued, we utilize both market comparable pricing and discounted cash flow analysis valuation techniques. Relevant market indicators factored into the analysis include bid/ask spreads, the amount and timing of collateral credit losses, interest rates, and collateral prepayment rates. Estimated fair values are based on applying the market indicators to generate discounted cash flows (Level 3). These cash flow models use significant unobservable inputs such as a discount rate, prepayment rate, default rate, loss severity and credit support. A decrease in credit losses or discount rate, or an increase in prepayment rates, would generally cause the fair value of the ABS issued to decrease (i.e., become a larger liability).
FHLBC borrowings
FHLBC borrowings include amounts borrowed from the FHLBC that are secured, generally by residential mortgage loans. As these borrowings are secured and subject to margin calls and as the rates on these borrowings reset frequently to market rates, we believe that carrying values approximate fair values (Level 2).
Financial Instruments Carried at Amortized Cost
Participation in loan warehouse facility
Our participation in a loan warehouse facility is carried at amortized cost (Level 2).

REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 5. Fair Value of Financial Instruments - (continued)

Guarantee obligations
In association with our risk-sharing transactions with the Agencies, we have made certain guarantees which are carried on our balance sheet at amortized cost (Level 3).
Convertible notes
Convertible notes include unsecured convertible and exchangeable senior notes that are carried at their unpaid principal balance net of any unamortized deferred issuance costs (Level 2).
Trust preferred securities and subordinated notes
Trust preferred securities and subordinated notes are carried at their unpaid principal balance net of any unamortized deferred issuance costs (Level 3).
Note 6. Residential Loans
We acquire residential loans from third-party originators and may sell or securitize these loans or hold them for investment. The following table summarizes the classifications and carrying values of the residential loans owned at Redwood and at consolidated Sequoia entities at June 30, 2018 and December 31, 2017.
Table 6.1 – Classifications and Carrying Values of Residential Loans

June 30, 2018 (In Thousands)	Redwood	Legacy Sequoia	Sequoia Choice	Total
Held-for-sale				
At fair value	$1,104,545	$—	$—	$1,104,545
At lower of cost or fair value	115	—	—	115
Total held-for-sale	1,104,660	—	—	1,104,660
Held-for-investment at fair value	2,313,336	592,029	1,481,145	4,386,510
Total Residential Loans	$3,417,996	$592,029	$1,481,145	$5,491,170

December 31, 2017 (In Thousands)	Redwood	Legacy Sequoia	Sequoia Choice	Total
Held-for-sale				
At fair value	$1,427,052	$—	$—	$1,427,052
At lower of cost or fair value	893	—	—	893
Total held-for-sale	1,427,945	—	—	1,427,945
Held-for-investment at fair value	2,434,386	632,817	620,062	3,687,265
Total Residential Loans	$3,862,331	$632,817	$620,062	$5,115,210

At June 30, 2018, we owned mortgage servicing rights associated with $2.72 billion (principal balance) of consolidated residential loans purchased from third-party originators. The value of these MSRs is included in the carrying value of the associated loans on our consolidated balance sheets. We contract with licensed sub-servicers that perform servicing functions for these loans.

REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 6. Residential Loans - (continued)

Residential Loans Held-for-Sale
At Fair Value
At June 30, 2018, we owned 1,547 loans held-for-sale at fair value with an aggregate unpaid principal balance of $1.09 billion and a fair value of $1.10 billion, compared to 2,009 loans with an aggregate unpaid principal balance of $1.41 billion and a fair value of $1.43 billion at December 31, 2017. At June 30, 2018, one of these loans with a fair value of $0.6 million was greater than 90 days delinquent and none of these loans were in foreclosure. At December 31, 2017, one of these loans with a fair value of $0.5 million was greater than 90 days delinquent and none of these loans were in foreclosure.
During the three and six months ended June 30, 2018, we purchased $1.93 billion and $3.73 billion (principal balance) of loans, respectively, for which we elected the fair value option, and we sold $1.92 billion and $3.93 billion (principal balance) of loans, respectively, for which we recorded net market valuation gains of $6 million and $11 million, respectively, through Mortgage banking activities, net on our consolidated statements of income. At June 30, 2018, loans held-for-sale with a market value of $786 million were pledged as collateral under short-term borrowing agreements.
During the three and six months ended June 30, 2017, we purchased $1.20 billion and $2.29 billion (principal balance) of loans, respectively, for which we elected the fair value option, and we sold $0.67 billion and $2.04 billion (principal balance) of loans, respectively, for which we recorded net market valuation gains of $6 million and $14 million, respectively, through Mortgage banking activities, net on our consolidated statements of income.
At Lower of Cost or Fair Value
At June 30, 2018 and December 31, 2017, we held two and four residential loans, respectively, at the lower of cost or fair value with $0.2 million and $1 million in outstanding principal balance, respectively, and carrying values of $0.1 million and $1 million, respectively. At June 30, 2018, none of these loans were greater than 90 days delinquent or in foreclosure. At December 31, 2017, one of these loans with an unpaid principal balance of $0.3 million was greater than 90 days delinquent and none of these loans were in foreclosure.
Residential Loans Held-for-Investment at Fair Value
At Redwood
At June 30, 2018, we owned 3,224 held-for-investment loans at Redwood with an aggregate unpaid principal balance of $2.34 billion and a fair value of $2.31 billion, compared to 3,292 loans with an aggregate unpaid principal balance of $2.41 billion and a fair value of $2.43 billion at December 31, 2017. At June 30, 2018, three of these loans with a total fair value of $1 million were greater than 90 days delinquent and none of these loans were in foreclosure. At December 31, 2017, none of these loans were greater than 90 days delinquent or in foreclosure.
During the three and six months ended June 30, 2018, we transferred loans with a fair value of $32 million and $88 million, respectively, from held-for-sale to held-for-investment. During the three and six months ended June 30, 2018, we did not transfer loans from held-for-investment to held-for-sale. During the three and six months ended June 30, 2018, we recorded net market valuation losses of $15 million and $54 million, respectively, on residential loans held-for-investment at fair value through Investment fair value changes, net on our consolidated statements of income. At June 30, 2018, loans with a fair value of $2.31 billion were pledged as collateral under a borrowing agreement with the FHLBC.
During the three and six months ended June 30, 2017, we transferred loans with a fair value of $62 million and $247 million, respectively, from held-for-sale to held-for-investment. During both the three and six months ended June 30, 2017, we transferred loans with a fair value of $0.5 million from held-for-investment to held-for-sale. During the three and six months ended June 30, 2017, we recorded net market valuation gains of $8 million and $6 million, respectively, on residential loans held-for-investment at fair value through Investment fair value changes, net on our

consolidated statements of income.

REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 6. Residential Loans - (continued)

At June 30, 2018, the outstanding loans held-for-investment at Redwood were prime-quality, first lien loans, of which 96% were originated between 2013 and 2018, and 4% were originated in 2012 and prior years. The weighted average FICO score of borrowers backing these loans was 770 (at origination) and the weighted average loan-to-value ("LTV") ratio of these loans was 66% (at origination). At June 30, 2018, these loans were comprised of 90% fixed-rate loans with a weighted average coupon of 4.08%, and the remainder were hybrid or ARM loans with a weighted average coupon of 4.09%.

At Consolidated Legacy Sequoia Entities

At June 30, 2018, we owned 2,924 held-for-investment loans at consolidated Legacy Sequoia entities, with an aggregate unpaid principal balance of $623 million and a fair value of $592 million, as compared to 3,178 loans at December 31, 2017, with an aggregate unpaid principal balance of $698 million and a fair value of $633 million. At origination, the weighted average FICO score of borrowers backing these loans was 728, the weighted average LTV ratio of these loans was 66%, and the loans were nearly all first lien and prime-quality.

At June 30, 2018 and December 31, 2017, the unpaid principal balance of loans at consolidated Legacy Sequoia entities delinquent greater than 90 days was $18 million and $25 million, respectively, of which the unpaid principal balance of loans in foreclosure was $7 million and $10 million, respectively. During the three and six months ended June 30, 2018, we recorded net market valuation gains of $4 million and $33 million, respectively, on these loans through Investment fair value changes, net on our consolidated statements of income. During the three and six months ended June 30, 2017, we recorded net market valuation gains of $11 million and $19 million, respectively, on these loans through Investment fair value changes, net on our consolidated statements of income. Pursuant to the collateralized financing entity guidelines, the market valuation changes of these loans are based on the estimated fair value of the associated ABS issued. The net impact to our income statement associated with our retained economic investment in the Legacy Sequoia securitization entities is presented in Note 5.

At Consolidated Sequoia Choice Entities

At June 30, 2018, we owned 1,990 held-for-investment loans at the consolidated Sequoia Choice entities, with an aggregate unpaid balance of $1.46 billion and a fair value of $1.48 billion, as compared to 806 loans at December 31, 2017 with an aggregate unpaid principal balance of $605 million and a fair value of $620 million. At origination, the weighted average FICO score of borrowers backing these loans was 743, the weighted average LTV ratio of these loans was 74%, and the loans were all first lien and prime-quality. At both June 30, 2018 and December 31, 2017, none of these loans were greater than 90 days delinquent or in foreclosure.

During the three and six months ended June 30, 2018, we transferred loans with a fair value of $530 million and $982 million, respectively, from held-for-sale to held-for-investment associated with Choice securitizations. Pursuant to the collateralized financing entity guidelines, the market valuation changes of these loans are based on the estimated fair value of the ABS issued associated with Choice securitizations. The net impact to our income statement associated with our retained economic investment in the Sequoia Choice securitization entities is presented in Note 5.

Note 7. Real Estate Securities

We invest in real estate securities that we acquire from third parties or create and retain from our Sequoia securitizations. The following table presents the fair values of our real estate securities by type at June 30, 2018 and December 31, 2017.

Table 7.1 – Fair Values of Real Estate Securities by Type

(In Thousands)	June 30, 2018	December 31, 2017
Trading	$ 1,054,295	$ 968,844
Available-for-sale	399,641	507,666

Total Real Estate Securities	$1,453,936	$ 1,476,510

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REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 7. Real Estate Securities - (continued)

Our real estate securities include mortgage-backed securities, which are presented in accordance with their general position within a securitization structure based on their rights to cash flows. Senior securities are those interests in a securitization that generally have the first right to cash flows and are last in line to absorb losses. Mezzanine securities are interests that are generally subordinate to senior securities in their rights to receive cash flows, and have subordinate securities below them that are first to absorb losses. Our mezzanine classified securities were initially rated AA through BBB- and issued in 2012 or later. Subordinate securities are all interests below mezzanine. Nearly all of our residential securities are supported by collateral that was designated as prime at the time of issuance.
Trading Securities
The following table presents the fair value of trading securities by position and collateral type at June 30, 2018 and December 31, 2017.
Table 7.2 – Trading Securities by Position and Collateral Type

(In Thousands)	June 30, 2018	December 31, 2017
Senior	$138,329	$ 69,974
Mezzanine	600,629	563,475
Subordinate	315,337	335,395
Total Trading Securities	$1,054,295	$ 968,844

We elected the fair value option for certain securities and classify them as trading securities. Our trading securities include both residential and commercial/multifamily securities. At June 30, 2018, trading securities with a carrying value of $613 million as well as $88 million of securities retained from our consolidated Sequoia Choice securitizations were pledged as collateral under short-term borrowing agreements. See Note 10 for additional information on short-term debt.
At June 30, 2018 and December 31, 2017, our senior trading securities included $89 million and $70 million of interest-only securities, respectively, for which there is no principal balance, and the remaining unpaid principal balance of our senior trading securities was $50 million and zero, respectively. Our interest-only securities included $39 million and $15 million of A-IO-S securities at June 30, 2018 and December 31, 2017, respectively, which are securities we retained from certain of our Sequoia securitizations that represent certificated servicing strips.
At June 30, 2018 and December 31, 2017, our mezzanine and subordinate trading securities had an unpaid principal balance of $1.01 billion and $943 million, respectively, and included $240 million and $301 million, respectively, of Agency residential mortgage credit risk transfer (or "CRT") securities, $68 million and $68 million, respectively, of Sequoia securities, $209 million and $206 million, respectively, of other third-party residential securities, and $399 million and $324 million, respectively, of third-party commercial/multifamily securities.
During the three and six months ended June 30, 2018, we acquired $233 million and $378 million (principal balance), respectively, of securities for which we elected the fair value option and classified as trading, and sold $62 million and $244 million, respectively, of such securities. During the three and six months ended June 30, 2017, we acquired $107 million and $261 million (principal balance), respectively, of securities for which we elected the fair value option and classified as trading, and sold $51 million and $60 million, respectively, of such securities.
During the three and six months ended June 30, 2018, we recorded net market valuation losses of $1 million and $4 million, respectively, on trading securities, included in Investment fair value changes, net and Mortgage banking activities, net on our consolidated statements of income. During the three and six months ended June 30, 2017, we recorded net market valuation gains of $19 million and $30 million, respectively, on trading securities, included in Investment fair value changes, net and Mortgage banking activities, net on our consolidated statements of income.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 7. Real Estate Securities - (continued)

AFS Securities

The following table presents the fair value of our available-for-sale securities by position and collateral type at June 30, 2018 and December 31, 2017.

Table 7.3 – Available-for-Sale Securities by Position and Collateral Type

(In Thousands)	June 30, 2018	December 31, 2017
Senior [(1)]	$147,490	$ 179,864
Mezzanine	37,263	92,002
Subordinate	214,888	235,800
Total AFS Securities	$399,641	$ 507,666

(1) Includes $34 million and $39 million of re-REMIC securities at June 30, 2018 and December 31, 2017, respectively. Re-REMIC securities were created through the resecuritization of certain senior security interests to provide additional credit support to those interests. These re-REMIC securities are therefore subordinate to the remaining senior security interests, but senior to any subordinate tranches of the securitization from which they were created.

At June 30, 2018 and December 31, 2017, all of our available-for-sale securities were comprised of residential mortgage-backed securities. At June 30, 2018, AFS securities with a carrying value of $145 million were pledged as collateral under short-term borrowing agreements. See Note 10 for additional information on short-term debt.

During the three and six months ended June 30, 2018, we purchased $2 million and $6 million of AFS securities, respectively, and sold $41 million and $92 million of AFS securities, respectively, which resulted in net realized gains of $5 million and $14 million, respectively. During the three and six months ended June 30, 2017, we purchased $2 million and $27 million of AFS securities, respectively, and sold $19 million and $38 million of AFS securities, respectively, which resulted in net realized gains of $3 million and $8 million, respectively.

We often purchase AFS securities at a discount to their outstanding principal balances. To the extent we purchase an AFS security that has a likelihood of incurring a loss, we do not amortize into income the portion of the purchase discount that we do not expect to collect due to the inherent credit risk of the security. We may also expense a portion of our investment in the security to the extent we believe that principal losses will exceed the purchase discount. We designate any amount of unpaid principal balance that we do not expect to receive and thus do not expect to earn or recover as a credit reserve on the security. Any remaining net unamortized discounts or premiums on the security are amortized into income over time using the effective yield method.

At June 30, 2018, there were less than $0.1 million of AFS securities with contractual maturities less than five years, $2 million with contractual maturities greater than five years but less than 10 years, and the remainder of our AFS securities had contractual maturities greater than 10 years.

The following table presents the components of carrying value (which equals fair value) of AFS securities at June 30, 2018 and December 31, 2017.

Table 7.4 – Carrying Value of AFS Securities

June 30, 2018

(In Thousands)	Senior	Mezzanine	Subordinate	Total
Principal balance	$152,651	$38,036	$312,983	$503,670
Credit reserve	(8,187)	—	(34,004)	(42,191)
Unamortized discount, net	(34,376)	(3,993)	(131,721)	(170,090)
Amortized cost	110,088	34,043	147,258	291,389
Gross unrealized gains	38,153	3,220	68,236	109,609

Gross unrealized losses	(751)	—	(606)	(1,357)
Carrying Value	$ 147,490	$ 37,263	$ 214,888	$ 399,641

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Note 7. Real Estate Securities - (continued)

December 31, 2017				
(In Thousands)	Senior	Mezzanine	Subordinate	Total
Principal balance	$189,125	$91,471	$327,549	$608,145
Credit reserve	(8,756)	—	(37,793)	(46,549)
Unamortized discount, net	(44,041)	(9,407)	(130,305)	(183,753)
Amortized cost	136,328	82,064	159,451	377,843
Gross unrealized gains	44,771	9,938	76,481	131,190
Gross unrealized losses	(1,235)	—	(132)	(1,367)
Carrying Value	$179,864	$92,002	$235,800	$507,666

The following table presents the changes for the three and six months ended June 30, 2018, in unamortized discount and designated credit reserves on residential AFS securities.

Table 7.5 – Changes in Unamortized Discount and Designated Credit Reserves on AFS Securities

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
(In Thousands)	Credit Reserve	Unamortized Discount, Net	Credit Reserve	Unamortized Discount, Net
Beginning balance	$40,616	$178,302	$46,549	$183,753
Amortization of net discount	—	(3,848)	—	(7,908)
Realized credit losses	(385)	—	(1,341)	—
Acquisitions	2,251	495	4,787	2,130
Sales, calls, other	(299)	(4,907)	(1,066)	(14,679)
Impairments	56	—	56	—
(Release of) transfers to credit reserves, net	(48)	48	(6,794)	6,794
Ending Balance	$42,191	$170,090	$42,191	$170,090

AFS Securities with Unrealized Losses

The following table presents the components comprising the total carrying value of residential AFS securities that were in a gross unrealized loss position at June 30, 2018 and December 31, 2017.

Table 7.6 – Components of Fair Value of Residential AFS Securities by Holding Periods

	Less Than 12 Consecutive Months			12 Consecutive Months or Longer		
(In Thousands)	Amortized Cost	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Losses	Fair Value
June 30, 2018	$18,610	$ (606)	$18,004	$25,887	$ (751)	$25,136
December 31, 2017	8,637	(132)	8,505	28,557	(1,235)	27,322

At June 30, 2018, after giving effect to purchases, sales, and extinguishment due to credit losses, our consolidated balance sheet included 145 AFS securities, of which 10 were in an unrealized loss position and three were in a continuous unrealized loss position for 12 consecutive months or longer. At December 31, 2017, our consolidated balance sheet included 167 AFS securities, of which nine were in an unrealized loss position and three were in a continuous unrealized loss position for 12 consecutive months or longer.

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Note 7. Real Estate Securities - (continued)

Evaluating AFS Securities for Other-than-Temporary Impairments
Gross unrealized losses on our AFS securities were $1 million at June 30, 2018. We evaluate all securities in an unrealized loss position to determine if the impairment is temporary or other-than-temporary (resulting in an OTTI). At June 30, 2018, we did not intend to sell any of our AFS securities that were in an unrealized loss position, and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost basis, which may be at their maturity. We review our AFS securities that are in an unrealized loss position to identify those securities with losses that are other-than-temporary based on an assessment of changes in expected cash flows for such securities, which considers recent security performance and expected future performance of the underlying collateral. For the three and six months ended June 30, 2018, other-than-temporary impairments were $0.3 million, of which $0.1 million were recognized through our consolidated statements of income and $0.2 million were recognized in Accumulated other comprehensive income, a component of our consolidated balance sheet. AFS securities for which OTTI is recognized have experienced, or are expected to experience, credit-related adverse cash flow changes. In determining our estimate of cash flows for AFS securities we may consider factors such as structural credit enhancement, past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, which are informed by prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, FICO scores at loan origination, year of origination, loan-to-value ratios, and geographic concentrations, as well as general market assessments. Changes in our evaluation of these factors impacted the cash flows expected to be collected at the OTTI assessment date and were used to determine if there were credit-related adverse cash flows and if so, the amount of credit related losses. Significant judgment is used in both our analysis of the expected cash flows for our AFS securities and any determination of the credit loss component of OTTI.
The table below summarizes the significant valuation assumptions we used for our AFS securities in unrealized loss positions at June 30, 2018.
Table 7.7 – Significant Valuation Assumptions

June 30, 2018	Range for Securities
Prepayment rates	6% - 10%
Projected losses	0.20% - 3%

The following table details the activity related to the credit loss component of OTTI (i.e., OTTI recognized through earnings) for AFS securities held at June 30, 2018 and 2017, for which a portion of an OTTI was recognized in other comprehensive income.
Table 7.8 – Activity of the Credit Component of Other-than-Temporary Impairments

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Balance at beginning of period	$20,924	$26,390	$21,037	$28,261
Additions				
Initial credit impairments	43	81	43	178
Subsequent credit impairments	—	47	—	47
Reductions				
Securities sold, or expected to sell	—	(716)	(99)	(2,282)
Securities with no outstanding principal at period end	—	—	(14)	(402)
Balance at End of Period	$20,967	$25,802	$20,967	$25,802

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REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 7. Real Estate Securities - (continued)

Gains and losses from the sale of AFS securities are recorded as Realized gains, net, in our consolidated statements of income. The following table presents the gross realized gains and losses on sales and calls of AFS securities for the three and six months ended June 30, 2018 and 2017.

Table 7.9 – Gross Realized Gains and Losses on AFS Securities

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Gross realized gains - sales	$4,674	$2,555	$14,037	$7,647
Gross realized gains - calls	43	66	43	677
Gross realized losses - sales	(3)	—	(3)	—
Gross realized losses - calls	—	(497)	—	(497)
Total Realized Gains on Sales and Calls of AFS Securities, net	$4,714	$2,124	$14,077	$7,827

Note 8. Derivative Financial Instruments

The following table presents the fair value and notional amount of our derivative financial instruments at June 30, 2018 and December 31, 2017.

Table 8.1 – Fair Value and Notional Amount of Derivative Financial Instruments

	June 30, 2018		December 31, 2017	
(In Thousands)	Fair Value	Notional Amount	Fair Value	Notional Amount
Assets - Risk Management Derivatives				
Interest rate swaps	$59,468	$2,675,500	$10,122	$1,765,000
TBAs	3,186	1,230,000	133	295,000
Futures	—	—	1	7,500
Swaptions	—	—	42	200,000
Assets - Other Derivatives				
Loan purchase commitments	2,991	460,620	3,243	547,434
Loan forward sale commitments	—	—	2,177	343,681
Total Assets	$65,645	$4,366,120	$15,718	$3,158,615
Liabilities - Cash Flow Hedges				
Interest rate swaps	$(31,601)	$139,500	$(43,679)	$139,500
Liabilities - Risk Management Derivatives				
Interest rate swaps	(13,129)	820,000	(11,888)	1,248,000
TBAs	(6,372)	1,485,000	(3,808)	1,400,000
Futures	(126)	15,000	—	—
Liabilities - Other Derivatives				
Loan purchase commitments	(4,701)	805,139	(3,706)	697,966
Total Liabilities	$(55,929)	$3,264,639	$(63,081)	$3,485,466
Total Derivative Financial Instruments, Net	$9,716	$7,630,759	$(47,363)	$6,644,081

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REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 8. Derivative Financial Instruments - (continued)

Risk Management Derivatives

To manage, to varying degrees, risks associated with certain assets and liabilities on our consolidated balance sheets, we may enter into derivative contracts. At June 30, 2018, we were party to swaps and swaptions with an aggregate notional amount of $3.50 billion, TBA agreements sold with an aggregate notional amount of $2.72 billion, and financial futures contracts with an aggregate notional amount of $15 million. At December 31, 2017, we were party to swaps and swaptions with an aggregate notional amount of $3.21 billion, TBA agreements sold with an aggregate notional amount of $1.70 billion, and financial futures contracts with an aggregate notional amount of $8 million. During the three and six months ended June 30, 2018, risk management derivatives had net market valuation gains of $22 million and $89 million, respectively. During the three and six months ended June 30, 2017, risk management derivatives had net market valuation losses of $20 million and $27 million, respectively. These market valuation gains and losses are recorded in Mortgage banking activities, net, Investment fair value changes, net, and Other income, net on our consolidated statements of income.

Loan Purchase and Forward Sale Commitments

LPCs and FSCs that qualify as derivatives are recorded at their estimated fair values. For the three and six months ended June 30, 2018, LPCs and FSCs had net market valuation losses of $3 million and $10 million, respectively, that were recorded in Mortgage banking activities, net on our consolidated statements of income. For the three and six months ended June 30, 2017, LPCs had net market valuation gains of $10 million and $21 million, respectively, that were recorded in Mortgage banking activities, net on our consolidated statements of income.

Derivatives Designated as Cash Flow Hedges

To manage the variability in interest expense related to portions of our long-term debt and certain adjustable-rate securitization entity liabilities that are included in our consolidated balance sheets for financial reporting purposes, we designated certain interest rate swaps as cash flow hedges with an aggregate notional balance of $140 million.

For the three and six months ended June 30, 2018, changes in the values of designated cash flow hedges were positive $3 million and positive $12 million, respectively, and were recorded in Accumulated other comprehensive income, a component of equity. For the three and six months ended June 30, 2017, changes in the values of designated cash flow hedges were negative $2 million and negative $1 million, respectively, and were recorded in Accumulated other comprehensive income, a component of equity. For interest rate agreements currently or previously designated as cash flow hedges, our total unrealized loss reported in Accumulated other comprehensive income was $31 million and $43 million at June 30, 2018 and December 31, 2017, respectively.

The following table illustrates the impact on interest expense of our interest rate agreements accounted for as cash flow hedges for the three and six months ended June 30, 2018 and 2017.

Table 8.2 – Impact on Interest Expense of Interest Rate Agreements Accounted for as Cash Flow Hedges

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Net interest expense on cash flows hedges	$(804)	$(1,172)	$(1,802)	$(2,397)
Realized net losses reclassified from other comprehensive income	—	(14)	—	(28)
Total Interest Expense	$(804)	$(1,186)	$(1,802)	$(2,425)

Derivative Counterparty Credit Risk

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2017, we consider counterparty risk as part of our fair value assessments of all derivative financial instruments at each quarter-end. At June 30, 2018, we assessed this risk as remote and did not record a specific valuation adjustment.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 8. Derivative Financial Instruments - (continued)

At June 30, 2018, we had outstanding derivative agreements with two counterparties (other than clearinghouses) and were in compliance with ISDA agreements governing our open derivative positions.

Note 9. Other Assets and Liabilities

Other assets at June 30, 2018 and December 31, 2017, are summarized in the following table.

Table 9.1 – Components of Other Assets

(In Thousands)	June 30, 2018	December 31, 2017
Mortgage servicing rights	$64,674	$ 63,598
Margin receivable	49,538	85,044
FHLBC stock	43,393	43,393
Pledged collateral	42,201	42,615
Participation in loan warehouse facility	41,658	—
Investment in 5 Arches	10,973	—
Fixed assets and leasehold improvements (1)	5,189	2,645
Guarantee asset	2,936	2,869
REO	2,649	3,354
Other	9,459	15,046
Total Other Assets	$272,670	$ 258,564

(1) Fixed assets and leasehold improvements had a basis of $10 million and accumulated depreciation of $4 million at June 30, 2018.

Accrued expenses and other liabilities at June 30, 2018 and December 31, 2017 are summarized in the following table.

Table 9.2 – Components of Accrued Expenses and Other Liabilities

(In Thousands)	June 30, 2018	December 31, 2017
Guarantee obligations	$18,124	$ 19,487
Accrued compensation	13,387	24,025
Deferred tax liabilities	11,764	11,764
Unsettled trades	11,328	13
Margin payable	7,282	390
Residential loan and MSR repurchase reserve	4,443	4,916
Accrued income taxes payable	2,547	—
Legal reserve	2,000	2,000
Other	8,696	5,134
Total Accrued Expenses and Other Liabilities	$79,571	$ 67,729

Mortgage Servicing Rights

We invest in mortgage servicing rights associated with residential mortgage loans and contract with licensed sub-servicers to perform all servicing functions for these loans. The majority of our investments in MSRs were made through the retention of servicing rights associated with the residential jumbo mortgage loans that we acquire and subsequently transfer to third parties. We hold our MSR investments at our taxable REIT subsidiary.

At June 30, 2018 and December 31, 2017, our MSRs had a fair value of $65 million and $64 million, respectively, and were associated with loans with an aggregate principal balance of $5.16 billion and $5.56 billion, respectively.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 9. Other Assets and Liabilities - (continued)

The following table presents activity for MSRs for the three and six months ended June 30, 2018 and 2017.

Table 9.3 – Activity for MSRs

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Balance at beginning of period	$66,496	$111,013	$63,598	$118,526
Additions	—	216	—	7,701
Sales	(1,077)	(41,038)	(1,077)	(52,966)
Changes in fair value due to:				
Changes in assumptions (1)	943	(3,356)	5,289	(4,013)
Other changes (2)	(1,688)	(3,065)	(3,136)	(5,478)
Balance at End of Period	$64,674	$63,770	$64,674	$63,770

(1) Primarily reflects changes in prepayment assumptions due to changes in market interest rates.
(2) Represents changes due to the realization of expected cash flows.

The following table presents the components of our MSR income for the three and six months ended June 30, 2018 and 2017.

Table 9.4 – Components of MSR Income, net

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Servicing income	$3,802	$6,511	$7,597	$13,418
Cost of sub-servicer	(338)	(659)	(930)	(2,039)
Net servicing fee income	3,464	5,852	6,667	11,379
Market valuation changes of MSRs	(745)	(6,421)	2,147	(9,491)
Market valuation changes of associated derivatives	(1,122)	3,040	(6,261)	2,291
MSR reversal of provision for repurchases	277	307	277	312
MSR Income, Net (1)	$1,874	$2,778	$2,830	$4,491

(1) MSR income, net is included in Other income, net on our consolidated statements of income.

Margin Receivable and Payable

Margin receivable and payable resulted from margin calls between us and our counterparties under derivatives, master repurchase agreements, and warehouse facilities, whereby we or the counterparty posted collateral.

FHLB Stock

In accordance with our FHLB-member subsidiary's borrowing agreement with the FHLBC, our subsidiary is required to purchase and hold stock in the FHLBC. See Note 3 and Note 12 for additional information on this borrowing agreement.

REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 9. Other Assets and Liabilities - (continued)

Participation in Loan Warehouse Facility
In the second quarter of 2018, we invested in a subordinated participation in a revolving mortgage loan warehouse credit facility of one of our loan sellers. While our interest is subordinated, it is secured by the loans collateralizing the facility and we have recourse to the loan seller. We account for this subordinated participation interest as a loan receivable at amortized cost, and all associated interest income is recorded as a component of Other interest income in our consolidated statements of income. We monitor the credit quality of the warehouse line of credit and utilize such information in our evaluation of the appropriateness of the allowance for credit losses. As of June 30, 2018, we determined no allowance for credit losses was required for this receivable.
Investment in 5 Arches
On May 1, 2018, we acquired a 20% minority interest in 5 Arches, LLC ("5 Arches") for $10 million, which included a one-year option to purchase all remaining equity in the company for a combination of cash and stock totaling $40 million. 5 Arches is an originator and asset manager of business-purpose residential mortgage loans, including loans to investors in single-family rental properties, bridge loans for investors in multifamily properties, and loans to investors rehabilitating and reselling residential properties. In connection with this investment, we also entered into a loan flow purchase agreement, which gives us exclusive access to 5 Arches' single-family rental loan production for a one-year period. At June 30, 2018, we had not purchased any loans under this agreement.
We account for our ownership interest in 5 Arches using the equity method of accounting as we are able to exert significant influence over but do not control the activities of the investee. At June 30, 2018, the carrying amount of our investment in 5 Arches was $7 million. We account for our purchase option as a cost method investment, which had a carrying value of $4 million at June 30, 2018. We have elected to record our share of earnings or losses from 5 Arches on a one-quarter lag, and as such, we did not record any equity method investment earnings or losses associated with this investment during the three months ended June 30, 2018.
Guarantee Asset, Pledged Collateral, and Guarantee Obligations
The pledged collateral, guarantee asset, and guarantee obligations presented in the tables above are related to our risk-sharing arrangements with Fannie Mae and Freddie Mac. In accordance with these arrangements, we are required to pledge collateral to secure our guarantee obligations. See Note 13 for additional information on our risk-sharing arrangements.
REO
The carrying value of REO at June 30, 2018 was $3 million, which includes the net effect of $2 million related to transfers into REO during the six months ended June 30, 2018, offset by $3 million of REO liquidations, and $0.4 million of unrealized gains resulting from market valuation adjustments. At June 30, 2018 and December 31, 2017, there were 9 and 14 REO properties, respectively, recorded on our consolidated balance sheets, all of which were owned at consolidated Legacy Sequoia entities.
Legal and Repurchase Reserves
See Note 13 for additional information on the legal and residential repurchase reserves.
Note 10. Short-Term Debt
We enter into repurchase agreements, bank warehouse agreements, and other forms of collateralized (and generally uncommitted) short-term borrowings with several banks and major investment banking firms. At June 30, 2018, we had outstanding agreements with several counterparties and we were in compliance with all of the related covenants. For additional information about these financial covenants and our short-term debt, see Part I, Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report on Form 10-Q and Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017.

REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 10. Short-Term Debt - (continued)

The table below summarizes our short-term debt, including the facilities that are available to us, the outstanding balances, the weighted average interest rate, and the maturity information at June 30, 2018 and December 31, 2017.
Table 10.1 – Short-Term Debt

	June 30, 2018						
(Dollars in Thousands)	Number of Facilities	Outstanding Balance	Limit	Weighted Average Interest Rate		Maturity	Weighted Average Days Until Maturity
Facilities							
Residential loan warehouse	4	$719,394	$1,425,000	3.69	%	8/2018-3/2019	141
Real estate securities repo	7	706,894	—	3.25	%	7/2018-9/2018	28
Total Short-Term Debt	11	$1,426,288					

	December 31, 2017						
(Dollars in Thousands)	Number of Facilities	Outstanding Balance	Limit	Weighted Average Interest Rate		Maturity	Weighted Average Days Until Maturity
Facilities							
Residential loan warehouse	4	$1,039,666	$1,575,000	3.17	%	1/2018-12/2018	197
Real estate securities repo	9	648,746	—	2.69	%	1/2018-3/2018	28
Total Short-Term Debt Facilities	13	1,688,412					
Convertible notes, net	N/A	250,270	—	4.63	%	4/2018	105
Total Short-Term Debt		$1,938,682					

Borrowings under our facilities are generally charged interest based on a specified margin over the one-month LIBOR interest rate. At June 30, 2018, all of these borrowings were under uncommitted facilities and were due within 364 days (or less) of the borrowing date.
The fair value of held-for-sale residential loans and real estate securities pledged as collateral under our short-term debt facilities was $786 million and $846 million, respectively, at June 30, 2018 and $1.15 billion and $788 million, respectively, at December 31, 2017. At June 30, 2018, the fair value of our real estate securities pledged as collateral included $88 million of securities retained from our consolidated Sequoia Choice securitizations. For the three and six months ended June 30, 2018, the average balances of our short-term debt facilities were $1.48 billion and $1.42 billion, respectively. At June 30, 2018 and December 31, 2017, accrued interest payable on our short-term debt facilities was $3 million and $2 million, respectively.
During the second quarter of 2017, $288 million principal amount of 4.625% convertible senior notes and $2 million of unamortized deferred issuance costs were reclassified from long-term debt to short-term debt, as the maturity of the notes was less than one year as of April 2017. Additionally, during the second quarter of 2017, we repurchased $37 million par value of these notes at a premium and recorded a loss on extinguishment of debt of $1 million in Realized gains, net on our consolidated statements of income. In April 2018, we repaid these $250 million convertible notes and all related accrued interest in full. See Note 12 for additional information on our convertible notes.
We also maintain a $10 million committed line of credit with a financial institution that is secured by certain mortgage-backed securities with a fair market value of $4 million at June 30, 2018. At both June 30, 2018 and

December 31, 2017, we had no outstanding borrowings on this facility.

REDWOOD TRUST, INC. AND SUBSIDIARIES
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Note 10. Short-Term Debt - (continued)

Remaining Maturities of Short-Term Debt
The following table presents the remaining maturities of our secured short-term debt by the type of collateral securing the debt at June 30, 2018.
Table 10.2 – Short-Term Debt by Collateral Type and Remaining Maturities

	June 30, 2018			
(In Thousands)	Within 30 days	31 to 90 days	Over 90 days	Total
Collateral Type				
Held-for-sale residential loans	$—	$334,775	$384,619	$719,394
Real estate securities	491,738	215,156	—	706,894
Total Short-Term Debt	$491,738	$549,931	$384,619	$1,426,288

Note 11. Asset-Backed Securities Issued
Through our Sequoia securitization program, we sponsor securitization transactions in which ABS backed by residential mortgage loans are issued by Sequoia entities. We consolidated the Legacy Sequoia securitization entities, and beginning in September 2017, the Sequoia Choice securitization entities, that we determined were VIEs and for which we determined we were the primary beneficiary. Each consolidated securitization entity is independent of Redwood and of each other and the assets and liabilities are not owned by and are not legal obligations of Redwood. Our exposure to these entities is primarily through the financial interests we have retained, although we are exposed to certain financial risks associated with our role as a sponsor, servicing administrator, or depositor of these entities or as a result of our having sold assets directly or indirectly to these entities.
We account for the ABS issued under our consolidated Sequoia entities at fair value, with periodic changes in fair value recorded in Investment fair value changes, net on our consolidated statements of income. Pursuant to the CFE guidelines, the market valuation changes on our Sequoia loans are based on the estimated fair value of the associated ABS issued. The net impact to our income statement associated with our retained economic investment in the Sequoia securitization entities is presented in Note 5.
The ABS issued by these entities consist of various classes of securities that pay interest on a monthly or quarterly basis. All ABS issued by the Sequoia Choice entities pay fixed rates of interest and substantially all ABS issued by the Legacy Sequoia entities pay variable rates of interest, which are indexed to one-, three-, or six-month LIBOR. ABS issued also includes some interest-only classes with coupons set at a fixed spread to a benchmark rate, or set at a spread to the interest rates earned on the assets less the interest rates paid on the liabilities of a securitization entity.
The carrying values of ABS issued by Sequoia securitization entities we sponsored at June 30, 2018 and December 31, 2017, along with other selected information, are summarized in the following table.

Table 11.1 – Asset-Backed Securities Issued

June 30, 2018 (Dollars in Thousands)	Legacy Sequoia	Sequoia Choice	Total
Certificates with principal balance	$615,868	$1,320,414	$1,936,282
Interest-only certificates	1,578	21,843	23,421
Market valuation adjustments	(35,211)	5,170	(30,041)
ABS Issued, Net	$582,235	$1,347,427	$1,929,662
Range of weighted average interest rates, by series	2.12% to 3.26%	4.48% to 4.65%	
Stated maturities			

	2024 - 2036	2047 - 2048
Number of series	20	4

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Note 11. Asset-Backed Securities Issued - (continued)

December 31, 2017 (Dollars in Thousands)	Legacy Sequoia	Sequoia Choice	Total
Certificates with principal balance	$691,125	$526,657	$1,217,782
Interest-only certificates	1,972	7,695	9,667
Market valuation adjustments	(70,652)	7,788	(62,864)
ABS Issued, Net	$622,445	$542,140	$1,164,585
Range of weighted average interest rates, by series	1.46% to 2.78%	4.52% to 4.73%	
Stated maturities	2024 - 2036	2047	
Number of series	20	2	

The actual maturity of each class of ABS issued is primarily determined by the rate of principal prepayments on the assets of the issuing entity. Each series is also subject to redemption prior to the stated maturity according to the terms of the respective governing documents of each ABS issuing entity. As a result, the actual maturity of ABS issued may occur earlier than its stated maturity. At June 30, 2018, all of the ABS issued and outstanding had contractual maturities beyond five years.

At both June 30, 2018 and December 31, 2017, accrued interest payable on ABS issued by the Legacy Sequoia entities was $1 million. At June 30, 2018 and December 31, 2017, accrued interest payable on ABS issued by the Sequoia Choice entities was $5 million and $2 million, respectively. Interest due on consolidated ABS issued is payable monthly.

The following table summarizes the carrying value components of the collateral for ABS issued and outstanding at June 30, 2018 and December 31, 2017.

Table 11.2 – Collateral for Asset-Backed Securities Issued

June 30, 2018 (In Thousands)	Legacy Sequoia	Sequoia Choice	Total
Residential loans	$592,029	$1,481,145	$2,073,174
Restricted cash	147	10	157
Accrued interest receivable	835	5,956	6,791
REO	2,649	—	2,649
Total Collateral for ABS Issued	$595,660	$1,487,111	$2,082,771

December 31, 2017 (In Thousands)	Legacy Sequoia	Sequoia Choice	Total
Residential loans	$632,817	$620,062	$1,252,879
Restricted cash	147	4	151
Accrued interest receivable	867	2,524	3,391
REO	3,353	—	3,353
Total Collateral for ABS Issued	$637,184	$622,590	$1,259,774

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Note 12. Long-Term Debt

FHLBC Borrowings

In July 2014, our FHLB-member subsidiary entered into a borrowing agreement with the Federal Home Loan Bank of Chicago. At June 30, 2018, under this agreement, our subsidiary could incur borrowings up to $2.00 billion, also referred to as “advances,” from the FHLBC secured by eligible collateral, including residential mortgage loans. During the three and six months ended June 30, 2018, our FHLB-member subsidiary made no additional borrowings under this agreement. Under a final rule published by the Federal Housing Finance Agency in January 2016, our FHLB-member subsidiary will remain an FHLB member through the five-year transition period for captive insurance companies. Our FHLB-member subsidiary's existing $2.00 billion of FHLB debt, which matures beyond this transition period, is permitted to remain outstanding until its stated maturity. As residential loans pledged as collateral for this debt pay down, we are permitted to pledge additional loans or other eligible assets to collateralize this debt; however, we do not expect to be able to increase our subsidiary's FHLB debt above the existing $2.00 billion maximum.

At June 30, 2018, $2.00 billion of advances were outstanding under this agreement, which were classified as long-term debt, with a weighted average interest rate of 2.03% and a weighted average maturity of approximately seven years. At December 31, 2017, $2.00 billion of advances were outstanding under this agreement, which were classified as long-term debt, with a weighted average interest rate of 1.38% and a weighted average maturity of eight years. Advances under this agreement incur interest charges based on a specified margin over the FHLBC’s 13-week discount note rate, which resets every 13 weeks. Total advances under this agreement were secured by residential mortgage loans with a fair value of $2.31 billion at June 30, 2018. This agreement also requires our subsidiary to purchase and hold stock in the FHLBC in an amount equal to a specified percentage of outstanding advances. At June 30, 2018, our subsidiary held $43 million of FHLBC stock that is included in Other assets in our consolidated balance sheets.

The following table presents maturities of our FHLBC borrowings by year at June 30, 2018.

Table 12.1 – Maturities of FHLBC Borrowings by Year

(In Thousands)	June 30, 2018
2024	$470,171
2025	887,639
2026	642,189
Total FHLBC Borrowings	$1,999,999

For additional information about our FHLBC borrowings, see Part I, Item 2 of Quarterly Report on Form 10-Q under the heading “Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities.”

Convertible Notes

In June 2018, we issued $200 million principal amount of 5.625% convertible senior notes due 2024 at an issuance price of 99.5%. These convertible notes require semi-annual interest payments at a fixed coupon rate of 5.625% until maturity or conversion, which will be no later than July 15, 2024. After deducting the issuance discount, the underwriting discount and offering costs, we received $194 million of net proceeds. Including amortization of deferred debt issuance costs and the debt discount, the weighted average interest expense yield on these convertible notes is approximately 6.2% per annum. These notes are convertible at the option of the holder at a conversion rate of 54.7645 common shares per $1,000 principal amount of convertible senior notes (equivalent to a conversion price of $18.26 per common share). Upon conversion of these notes by a holder, the holder will receive shares of our common stock. At June 30, 2018, the outstanding principal amount of these notes was $200 million and the accrued interest payable on this debt was $0.2 million. At June 30, 2018, the unamortized deferred issuance costs and debt discount were $5 million and $1 million, respectively.

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Note 12. Long-Term Debt - (continued)

In August 2017, we issued $245 million principal amount of 4.75% convertible senior notes due 2023. These convertible notes require semi-annual interest payments at a fixed coupon rate of 4.75% until maturity or conversion, which will be no later than August 15, 2023. After deducting the underwriting discount and offering costs, we received $238 million of net proceeds. Including amortization of deferred debt issuance costs, the weighted average interest expense yield on these convertible notes is approximately 5.3% per annum. At June 30, 2018, these notes were convertible at the option of the holder at a conversion rate of 53.9060 common shares per $1,000 principal amount of convertible senior notes (equivalent to a conversion price of $18.55 per common share). Upon conversion of these notes by a holder, the holder will receive shares of our common stock. At June 30, 2018, the outstanding principal amount of these notes was $245 million. At June 30, 2018, the accrued interest payable balance on this debt was $4 million and the unamortized deferred issuance costs were $6 million.

In November 2014, RWT Holdings, Inc., a wholly-owned subsidiary of Redwood Trust, Inc., issued $205 million principal amount of 5.625% exchangeable senior notes due 2019. These exchangeable notes require semi-annual interest payments at a fixed coupon rate of 5.625% until maturity or exchange, which will be no later than November 15, 2019. After deducting the underwriting discount and offering costs, we received $198 million of net proceeds. Including amortization of deferred debt issuance costs, the weighted average interest expense yield on these exchangeable notes is approximately 6.3% per annum. At June 30, 2018, these notes were convertible at the option of the holder at a conversion rate of 46.2370 common shares per $1,000 principal amount of convertible senior notes (equivalent to a conversion price of $21.63 per common share). Upon exchange of these notes by a holder, the holder will receive shares of our common stock. During the first quarter of 2016, we repurchased $4 million par value of these notes at a discount and recorded a gain on extinguishment of debt of $0.3 million in Realized gains, net on our consolidated statements of income. At June 30, 2018, the outstanding principal amount of these notes was $201 million. At June 30, 2018, the accrued interest payable balance on this debt was $1 million and the unamortized deferred issuance costs were $2 million.

In March 2013, we issued $288 million principal amount of 4.625% convertible senior notes due in April 2018. These convertible notes required semi-annual interest payments at a fixed coupon rate of 4.625% until the debt matured on April 15, 2018. After deducting the underwriting discount and offering costs, we received $279 million of net proceeds. Including amortization of deferred debt issuance costs, the weighted average interest expense yield on these convertible notes was approximately 4.8% per annum. Until maturity, these notes were convertible at the option of the holder at a conversion rate of 41.1320 common shares per $1,000 principal amount of convertible senior notes (equivalent to a conversion price of $24.31 per common share). During the second quarter of 2017, $288 million principal amount of these convertible notes and $2 million of unamortized deferred issuance costs were reclassified from long-term debt to short-term debt, as the maturity of the notes was less than one year as of April 2017. Additionally, during the second quarter of 2017, we repurchased $37 million par value of these notes at a premium and recorded a loss on extinguishment of debt of $1 million in Realized gains, net on our consolidated statements of income. In April 2018, we repaid these $250 million convertible notes and all related accrued interest in full.

Trust Preferred Securities and Subordinated Notes

At June 30, 2018, we had trust preferred securities and subordinated notes outstanding of $100 million and $40 million, respectively. This debt requires quarterly interest payments at a floating rate equal to three-month LIBOR plus 2.25% until the notes are redeemed. The $100 million trust preferred securities will be redeemed no later than January 30, 2037, and the $40 million subordinated notes will be redeemed no later than July 30, 2037. Prior to 2014, we entered into interest rate swaps with aggregate notional values totaling $140 million to hedge the variability in this long-term debt interest expense. Including hedging costs and amortization of deferred debt issuance costs, the weighted average interest expense yield on our trust preferred securities and subordinated notes is approximately 6.8%

per annum. At both June 30, 2018 and December 31, 2017, the accrued interest payable balance on our trust preferred securities and subordinated notes was $1 million.

Under the terms of this debt, we covenant, among other things, to use our best efforts to continue to qualify as a REIT. If an event of default were to occur in respect of this debt, we would generally be restricted under its terms (subject to certain exceptions) from making dividend distributions to stockholders, from repurchasing common stock or repurchasing or redeeming any other then-outstanding equity securities, and from making any other payments in respect of any equity interests in us or in respect of any then-outstanding debt that is pari passu or subordinate to this debt.

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Note 12. Long-Term Debt - (continued)

Single-Family Rental Loan Warehouse Facilities

During the second quarter of 2018, we entered into repurchase facilities with two third-party financial institutions to finance purchases of mortgage loans secured by 1-4 unit residential rental real estate ("single-family rental loans"). The first facility has an aggregate maximum borrowing capacity of $200 million and is scheduled to mature on June 29, 2020. The second facility has an aggregate maximum borrowing capacity of $200 million and is scheduled to mature on June 29, 2021. Borrowings under these facilities are generally charged interest based on a specified margin over the one-month LIBOR interest rate. At June 30, 2018, there were no amounts outstanding under either of these facilities.

Note 13. Commitments and Contingencies

Lease Commitments

At June 30, 2018, we were obligated under four non-cancelable operating leases with expiration dates through 2028 for $17 million of cumulative lease payments. Our operating lease expense was $1 million for both six-month periods ended June 30, 2018 and 2017.

The following table presents our future lease commitments at June 30, 2018.

Table 13.1 – Future Lease Commitments by Year

(In Thousands)	June 30, 2018
2018 (6 months)	$982
2019	1,987
2020	1,965
2021	1,474
2022 and thereafter	10,217
Total Lease Commitments	$16,625

Commitments to Fund Equity Investments

At June 30, 2018, we had committed to fund $50 million to a limited partnership created to finance clean energy projects. This obligation may be requested at any time by the investment manager and will be recorded on our balance sheet as an equity method investment upon funding. At June 30, 2018, no investments in this partnership had been funded.

Commitment to Participate in Loan Warehouse Facility

In the second quarter of 2018, we invested in a participation in the mortgage loan warehouse credit facility of one of our loan sellers. This investment includes a commitment to participate in (and an obligation to fund) a designated amount of the loan seller's borrowings under this warehouse credit facility. This obligation is subject to daily funding requests by the financial institution, and fundings are recorded on our balance sheet as a Participation in loan warehouse facility. At June 30, 2018, $42 million of our commitment had been funded, and we were committed to fund up to an additional $8 million. See Note 9 for additional detail on our participation in a loan warehouse facility.

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Note 13. Commitments and Contingencies - (continued)

Loss Contingencies — Risk-Sharing

During 2015 and 2016, we sold conforming loans to the Agencies with an original unpaid principal balance of $3.19 billion, subject to our risk-sharing arrangements with the Agencies. At June 30, 2018, the maximum potential amount of future payments we could be required to make under these arrangements was $44 million and this amount was fully collateralized by assets we transferred to pledged accounts and is presented as pledged collateral in Other assets on our consolidated balance sheets. We have no recourse to any third parties that would allow us to recover any amounts related to our obligations under the arrangements. At June 30, 2018, we had not incurred any losses under these arrangements. For the three and six months ended June 30, 2018, other income related to these arrangements was $1 million and $2 million, respectively, and net market valuation losses related to these investments were $0.2 million and $0.3 million, respectively. For the three and six months ended June 30, 2017, other income related to these arrangements was $1 million and $2 million, respectively, and net market valuation losses related to these investments were $1 million for both periods.

All of the loans in the reference pools subject to these risk-sharing arrangements were originated in 2014 and 2015, and at June 30, 2018, the loans had an unpaid principal balance of $1.95 billion and a weighted average FICO score of 758 (at origination) and LTV of 76% (at origination). At June 30, 2018, $5 million of the loans were 90 days or more delinquent, of which $1 million were in foreclosure. At June 30, 2018, the carrying value of our guarantee obligation was $18 million and included $6 million designated as a non-amortizing credit reserve, which we believe is sufficient to cover current expected losses under these obligations.

Our consolidated balance sheets include assets of special purpose entities ("SPEs") associated with these risk-sharing arrangements (i.e., the "pledged collateral" referred to above) that can only be used to settle obligations of these SPEs for which the creditors of these SPEs (the Agencies) do not have recourse to Redwood Trust, Inc. or its affiliates. At June 30, 2018 and December 31, 2017, assets of such SPEs totaled $47 million and $48 million, respectively, and liabilities of such SPEs totaled $18 million and $19 million, respectively.

Loss Contingencies — Residential Repurchase Reserve

We maintain a repurchase reserve for potential obligations arising from representation and warranty violations related to residential loans we have sold to securitization trusts or third parties and for conforming residential loans associated with MSRs that we have purchased from third parties. We do not originate residential loans and we believe the initial risk of loss due to loan repurchases (i.e., due to a breach of representations and warranties) would generally be a contingency to the companies from whom we acquired the loans. However, in some cases, for example, where loans were acquired from companies that have since become insolvent, repurchase claims may result in our being liable for a repurchase obligation.

At June 30, 2018 and December 31, 2017, our repurchase reserve associated with our residential loans and MSRs was $4 million and $5 million, respectively, and was recorded in Accrued expenses and other liabilities on our consolidated balance sheets. We received two repurchase requests during the six months ended June 30, 2018, and did not repurchase any loans during this period. During the six months ended June 30, 2018 and 2017, we recorded reversals of repurchase provision of $0.5 million and $0.9 million, respectively, that were recorded in Mortgage banking activities, net and Other income, net on our consolidated statements of income.

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Note 13. Commitments and Contingencies - (continued)

Loss Contingencies — Litigation

On or about December 23, 2009, the Federal Home Loan Bank of Seattle (the “FHLB-Seattle”) filed a complaint in the Superior Court for the State of Washington (case number 09-2-46348-4 SEA) against Redwood Trust, Inc., our subsidiary, Sequoia Residential Funding, Inc. (“SRF”), Morgan Stanley & Co., and Morgan Stanley Capital I, Inc. (collectively, the “FHLB-Seattle Defendants”), which alleged that the FHLB-Seattle Defendants made false or misleading statements in offering materials for a mortgage pass-through certificate (the “Seattle Certificate”) issued in the Sequoia Mortgage Trust 2005-4 securitization transaction (the “2005-4 RMBS”) and purchased by the FHLB-Seattle. Specifically, the complaint alleged that the alleged misstatements concerned the (1) loan-to-value ratio of mortgage loans and the appraisals of the properties that secured loans supporting the 2005-4 RMBS, (2) occupancy status of the properties, (3) standards used to underwrite the loans, and (4) ratings assigned to the Seattle Certificate. The FHLB-Seattle alleged claims under the Securities Act of Washington (Section 21.20.005, et seq.) and sought to rescind the purchase of the Seattle Certificate and to collect interest on the original purchase price at the statutory interest rate of 8% per annum from the date of original purchase (net of interest received) as well as attorneys’ fees and costs. The Seattle Certificate was issued with an original principal amount of approximately $133 million, and, at June 30, 2018, approximately $126 million of principal and $11 million of interest payments had been made in respect of the Seattle Certificate. The matter was subsequently resolved and the claims were dismissed by the FHLB Seattle as to all the FHLB Seattle Defendants. At the time the Seattle Certificate was issued, Redwood agreed to indemnify the underwriters of the 2005-4 RMBS, which underwriters were named as defendants in the action, for certain losses and expenses they might incur as a result of claims made against them relating to this RMBS, including, without limitation, certain legal expenses. Regardless of the resolution of this litigation, we could incur a loss as a result of these indemnities.

On or about July 15, 2010, The Charles Schwab Corporation (“Schwab”) filed a complaint in the Superior Court for the State of California in San Francisco (case number CGC-10-501610) against SRF and 26 other defendants (collectively, the “Schwab Defendants”), which alleged that the Schwab Defendants made false or misleading statements in offering materials for various residential mortgage-backed securities sold or issued by the Schwab Defendants. Schwab alleged only a claim for negligent misrepresentation under California state law against SRF and sought unspecified damages and attorneys’ fees and costs from SRF. Schwab claimed that SRF made false or misleading statements in offering materials for a mortgage pass-through certificate (the “Schwab Certificate”) issued in the 2005-4 RMBS and purchased by Schwab. Specifically, the complaint alleged that the misstatements for the 2005-4 RMBS concerned the (1) loan-to-value ratio of mortgage loans and the appraisals of the properties that secured loans supporting the 2005-4 RMBS, (2) occupancy status of the properties, (3) standards used to underwrite the loans, and (4) ratings assigned to the Schwab Certificate. The Schwab Certificate was issued with an original principal amount of approximately $15 million, and, at June 30, 2018, approximately $14 million of principal and $1 million of interest payments had been made in respect of the Schwab Certificate. On November 14, 2014, Schwab voluntarily dismissed with prejudice its negligent misrepresentation claim, which resulted in the dismissal with prejudice of SRF from the action. Subsequently, the matter was resolved and Schwab dismissed its claims against the lead underwriter of the 2005-4 RMBS. At the time the Schwab Certificate was issued, Redwood agreed to indemnify the underwriters of the 2005-4 RMBS, which underwriters were also named as defendants in the action, for certain losses and expenses they might incur as a result of claims made against them relating to this RMBS, including, without limitation, certain legal expenses. Regardless of the resolution of this litigation, Redwood could incur a loss as a result of these indemnities.

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Note 13. Commitments and Contingencies - (continued)

Through certain of our wholly-owned subsidiaries, we have in the past engaged in, and expect to continue to engage in, activities relating to the acquisition and securitization of residential mortgage loans. In addition, certain of our wholly-owned subsidiaries have in the past engaged in activities relating to the acquisition and securitization of debt obligations and other assets through the issuance of collateralized debt obligations (commonly referred to as CDO transactions). Because of this involvement in the securitization and CDO businesses, we could become the subject of litigation relating to these businesses, including additional litigation of the type described above, and we could also become the subject of governmental investigations, enforcement actions, or lawsuits, and governmental authorities could allege that we violated applicable law or regulation in the conduct of our business. As an example, in July 2016 we became aware of a complaint filed by the State of California on April 1, 2016 against Morgan Stanley & Co. and certain of its affiliates alleging, among other things, that there were misleading statements contained in offering materials for 28 different mortgage pass-through certificates purchased by various California investors, including various California public pension systems, from Morgan Stanley and alleging that Morgan Stanley made false or fraudulent claims in connection with the sale of those certificates. Of the 28 mortgage pass-through certificates that were the subject of the complaint, two were Sequoia mortgage pass-through certificates issued in 2004 and two were Sequoia mortgage pass-through certificates issued in 2007. With respect to each of those certificates, our wholly-owned subsidiary, RWT Holdings, Inc., was the sponsor and our wholly-owned subsidiary, Sequoia Residential Funding, Inc., was the depositor. The plaintiffs subsequently withdrew from the litigation their claims based on eight of the 28 mortgage pass-through certificates, including one of the Sequoia mortgage pass-through certificates issued in 2004. At the time these Sequoia mortgage pass-through certificates were issued, Sequoia Residential Funding, Inc. and Redwood Trust agreed to indemnify the underwriters of these certificates for certain losses and expenses they might incur as a result of claims made against them relating to these certificates, including, without limitation, certain legal expenses. Regardless of the outcome of this litigation, we could incur a loss as a result of these indemnities.

In accordance with GAAP, we review the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in a liability and the amount of loss, if any, can be reasonably estimated. Additionally, we record receivables for insurance recoveries relating to litigation-related losses and expenses if and when such amounts are covered by insurance and recovery of such losses or expenses are due. At June 30, 2018, the aggregate amount of loss contingency reserves established in respect of the FHLB-Seattle and Schwab litigation matters described above was $2 million. We review our litigation matters each quarter to assess these loss contingency reserves and make adjustments in these reserves, upwards or downwards, as appropriate, in accordance with GAAP based on our review.

In the ordinary course of any litigation matter, including certain of the above-referenced matters, we have engaged and may continue to engage in formal or informal settlement communications with the plaintiffs or co-defendants. Settlement communications we have engaged in relating to certain of the above-referenced litigation matters are one of the factors that have resulted in our determination to establish the loss contingency reserves described above. We cannot be certain that any of these matters will be resolved through a settlement prior to trial and we cannot be certain that the resolution of these matters, whether through trial or settlement, will not have a material adverse effect on our financial condition or results of operations in any future period.

Future developments (including resolution of substantive pre-trial motions relating to these matters, receipt of additional information and documents relating to these matters (such as through pre-trial discovery), new or additional settlement communications with plaintiffs relating to these matters, or resolutions of similar claims against other defendants in these matters) could result in our concluding in the future to establish additional loss contingency reserves or to disclose an estimate of reasonably possible losses in excess of our established reserves with respect to these matters. Our actual losses with respect to the above-referenced litigation matters may be materially higher than the aggregate amount of loss contingency reserves we have established in respect of these litigation matters, including in the event that any of these matters proceeds to trial and the plaintiff prevails. Other factors that could result in our concluding to establish additional loss contingency reserves or estimate additional reasonably possible losses, or could result in our actual losses with respect to the above-referenced litigation matters being materially higher than the aggregate amount of loss contingency reserves we have established in respect of these litigation matters include that: there are significant factual and legal issues to be resolved; information obtained or rulings made during the lawsuits could affect the methodology for calculation of the available remedies; and we may have additional obligations pursuant to indemnity agreements, representations and warranties, and other contractual provisions with other parties relating to these litigation matters that could increase our potential losses.

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Note 14. Equity

The following table provides a summary of changes to accumulated other comprehensive income by component for the three and six months ended June 30, 2018 and 2017.

Table 14.1 – Changes in Accumulated Other Comprehensive Income by Component

(In Thousands)	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
	Net Unrealized Gains on Available-for-Sale Securities	Net Unrealized Losses on Interest Rate Agreements Accounted for as Cash Flow Hedges	Net Unrealized Gains on Available-for-Sale Securities	Net Unrealized Losses on Interest Rate Agreements Accounted for as Cash Flow Hedges
Balance at beginning of period	$114,577	$ (34,522)	$114,875	$ (42,273)
Other comprehensive (loss) income before reclassifications (1)	(3,104)	3,417	1,811	(2,429)
Amounts reclassified from other accumulated comprehensive income	(4,748)	—	(2,322)	14
Net current-period other comprehensive (loss) income	(7,852)	3,417	(511)	(2,415)
Balance at End of Period	$106,725	$ (31,105)	$114,364	$ (44,688)

(In Thousands)	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Net Unrealized Gains on Available-for-Sale Securities	Net Unrealized Losses on Interest Rate Agreements Accounted for as Cash Flow Hedges	Net Unrealized Gains on Available-for-Sale Securities	Net Unrealized Losses on Interest Rate Agreements Accounted for as Cash Flow Hedges
Balance at beginning of period	$128,201	$ (42,953)	$115,873	$ (44,020)
Other comprehensive income (loss) before reclassifications (1)	(7,341)	11,848	4,741	(696)
Amounts reclassified from other accumulated comprehensive income	(14,135)	—	(6,250)	28
Net current-period other comprehensive income (loss)	(21,476)	11,848	(1,509)	(668)
Balance at End of Period	$106,725	$ (31,105)	$114,364	$ (44,688)

(1) Amounts presented for net unrealized gains on available-for-sale securities are net of tax benefit (provision) of $0.2 million and $0.1 million for the three and six months ended June 30, 2018, respectively, and $0.1 million and $(0.1) million for the three and six months ended June 30, 2017, respectively.

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Note 14. Equity - (continued)

The following table provides a summary of reclassifications out of accumulated other comprehensive income for the three and six months ended June 30, 2018 and 2017.

Table 14.2 – Reclassifications Out of Accumulated Other Comprehensive Income

(In Thousands)	Affected Line Item in the Income Statement	Amount Reclassified From Accumulated Other Comprehensive Income Three Months Ended June 30, 2018	2017
Net Realized (Gain) Loss on AFS Securities			
Other than temporary impairment [1]	Investment fair value changes, net	$56	$128
Gain on sale of AFS securities	Realized gains, net	(4,804)	(2,450)
		$(4,748)	$(2,322)
Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges			
Amortization of deferred loss	Interest expense	$—	$14
		$—	$14

(In Thousands)	Affected Line Item in the Income Statement	Amount Reclassified From Accumulated Other Comprehensive Income Six Months Ended June 30, 2018	2017
Net Realized (Gain) Loss on AFS Securities			
Other than temporary impairment [1]	Investment fair value changes, net	$56	$245
Gain on sale of AFS securities	Realized gains, net	(14,191)	(6,495)
		$(14,135)	$(6,250)
Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges			
Amortization of deferred loss	Interest expense	$—	$28
		$—	$28

(1) For the three and six months ended June 30, 2018, other-than-temporary impairments were $0.3 million, of which $0.1 million were recognized through our consolidated statements of income and $0.2 million were recognized in Accumulated other comprehensive income, a component of our consolidated balance sheet. For the three months ended June 30, 2017, other-than-temporary impairments were $0.5 million, of which $0.1 million were recognized through our consolidated statements of income and $0.3 million were recognized in Accumulated other comprehensive income, a component of our consolidated balance sheet. For the six months ended June 30, 2017,

other-than-temporary impairments were $0.6 million, of which $0.2 million were recognized through our consolidated statements of income and $0.4 million were recognized in Accumulated other comprehensive income, a component of our consolidated balance sheet.

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Note 14. Equity - (continued)

Earnings per Common Share
The following table provides the basic and diluted earnings per common share computations for the three and six months ended June 30, 2018 and 2017.
Table 14.3 – Basic and Diluted Earnings per Common Share

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, except Share Data)	2018	2017	2018	2017
Basic Earnings per Common Share:				
Net income attributable to Redwood	$32,747	$ 36,324	$79,592	$ 73,293
Less: Dividends and undistributed earnings allocated to participating securities	(1,074)	(884)	(2,535)	(1,852)
Net income allocated to common shareholders	$31,673	$ 35,440	$77,057	$ 71,441
Basic weighted average common shares outstanding	75,380,715	76,819,703	75,388,638	76,779,178
Basic Earnings per Common Share	$0.42	$ 0.46	$1.02	$ 0.93
Diluted Earnings per Common Share:				
Net income attributable to Redwood	$32,747	$ 36,324	$79,592	$ 73,293
Less: Dividends and undistributed earnings allocated to participating securities	(1,156)	(935)	(2,584)	(1,940)
Add back: Interest expense on convertible notes for the period, net of tax	6,335	6,205	14,976	12,075
Net income allocated to common shareholders	$37,926	$ 41,594	$91,984	$ 83,428
Weighted average common shares outstanding	75,380,715	76,819,703	75,388,638	76,779,178
Net effect of dilutive equity awards	277,788	235,273	156,307	173,235
Net effect of assumed convertible notes conversion to common shares	24,773,490	20,439,168	28,746,235	20,766,137
Diluted weighted average common shares outstanding	100,431,993	97,494,144	104,291,180	97,718,550
Diluted Earnings per Common Share	$0.38	$ 0.43	$0.88	$ 0.85

We included participating securities, which are certain equity awards that have non-forfeitable dividend participation rights, in the calculations of basic and diluted earnings per common share as we determined that the two-class method was more dilutive than the alternative treasury stock method for these shares. Dividends and undistributed earnings allocated to participating securities under the basic and diluted earnings per share calculations require specific shares to be included that may differ in certain circumstances.
During the three and six months ended June 30, 2018 and 2017, certain of our convertible notes were determined to be dilutive and were included in the calculation of diluted EPS under the "if-converted" method. Under this method, the periodic interest expense (net of applicable taxes) for dilutive notes is added back to the numerator and the weighted average number of shares that the notes are entitled to (if converted, regardless of whether they are in or out of the money) are included in the denominator.
For the three and six months ended June 30, 2018, the number of outstanding equity awards that were antidilutive totaled 7,091 and 6,965, respectively. For the three and six months ended June 30, 2017, the number of outstanding equity awards that were antidilutive totaled 5,555 and 5,691, respectively.

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Note 14. Equity - (continued)

Stock Repurchases

In February 2016, our Board of Directors approved an authorization for the repurchase of up to $100 million of our common stock and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization replaced all previous share repurchase plans and has no expiration date. During the year ended December 31, 2017, we repurchased 610,342 shares of common stock pursuant to this authorization for $9 million. At December 31, 2017, approximately $77 million of this current authorization remained available for the repurchase of shares of our common stock. During January 2018, we repurchased 1,040,829 shares of our common stock pursuant to this authorization for $16 million.

In February 2018, our Board of Directors approved an authorization for the repurchase of an additional $39 million of our common stock, increasing the total amount authorized for repurchases of common stock to $100 million, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. As noted above, this authorization increased the previous share repurchase authorization approved in February 2016 and has no expiration date. This repurchase authorization does not obligate us to acquire any specific number of shares or securities. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. At June 30, 2018, $100 million of the current authorization remained available for the repurchase of shares of our common stock.

Note 15. Equity Compensation Plans

At June 30, 2018 and December 31, 2017, 4,882,986 and 1,356,438 shares of common stock, respectively, were available for grant under our Incentive Plan. During the three months ended June 30, 2018, Redwood shareholders approved for grant an additional 4,000,000 shares of common stock under our Incentive Plan. The unamortized compensation cost of awards issued under the Incentive Plan and purchases under the Employee Stock Purchase Plan totaled $23 million at June 30, 2018, as shown in the following table.

Table 15.1 – Activities of Equity Compensation Costs by Award Type

	Six Months Ended June 30, 2018				
(In Thousands)	Restricted Stock	Deferred Stock Units	Performance Stock Units	Employee Stock Purchase Plan	Total
Unrecognized compensation cost at beginning of period	$2,808	$13,364	$ 5,298	$ —	$21,470
Equity grants	2,380	4,750	350	136	7,616
Equity grant forfeitures	—	—	—	—	—
Equity compensation expense	(806)	(4,371)	(1,287)	(68)	(6,532)
Unrecognized Compensation Cost at End of Period	$4,382	$13,743	$ 4,361	$ 68	$22,554

At June 30, 2018, the weighted average amortization period remaining for all of our equity awards was less than two years.

Restricted Stock

At June 30, 2018 and December 31, 2017, there were 337,253 and 257,507 shares, respectively, of restricted stock outstanding. Restrictions on these shares lapse through 2022. During the six months ended June 30, 2018, there were 162,330 shares of restricted stock granted, restrictions on 82,584 shares of restricted stock lapsed and those shares were distributed, and no shares of restricted stock awards were forfeited.

Deferred Stock Units ("DSUs")

At June 30, 2018 and December 31, 2017, there were 2,233,954 and 1,878,491 DSUs, respectively, outstanding of which 1,189,795 and 889,835, respectively, had vested. During the six months ended June 30, 2018, there were 387,984 DSUs granted, 32,521 DSUs distributed, and no DSUs forfeited. Unvested DSUs at June 30, 2018 vest through 2022.

REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)
Note 15. Equity Compensation Plans - (continued)

Performance Stock Units (“PSUs”)
At June 30, 2018 and December 31, 2017, the target number of PSUs that were unvested was 727,295 and 704,270, respectively. Vesting for these PSUs will generally occur at the end of three years from their grant date, with the level of vesting at that time contingent on total shareholder return ("TSR"). TSR for these PSUs is defined as the percentage by which our common stock "per share price" has increased or decreased as of the last day of the three-year vesting period relative to the first day of such vesting period, adjusted to reflect the reinvestment of all dividends declared and/or paid on our common stock ("Three-Year TSR"). The number of underlying shares of our common stock that will vest in future years will vary between 0% (if Three-Year TSR is zero or negative) and 200% (if Three-Year TSR is greater than or equal to 125%) of the target number of PSUs originally granted, adjusted upward (if vesting is greater than 0%) to reflect the value of dividends paid during the three-year vesting period.
During the three months ended June 30, 2018, 23,025 target number of PSUs with a per unit grant date fair value of $15.20 were granted to two executives in connection with their promotions. The grant date fair values of these PSUs were determined through Monte-Carlo simulations using the following assumptions: our common stock closing price at the grant date, the average closing price of our common stock price for the 60 trading days prior to the grant date and the range of performance-based vesting based on TSR over three years from the grant date. For this PSU grant, an implied volatility assumption of 27% (based on historical volatility), a risk-free rate of 2.71% (the three-year Treasury rate on the grant date), and a 0% dividend yield (the mathematical equivalent to reinvesting the dividends over the three-year performance period as is consistent with the terms of the PSUs) were used.
Vesting for all PSUs will generally occur at the end of three years from their grant date based on various TSR performance calculations, as discussed in our Annual Report on Form 10-K for the year ended December 31, 2017.
Employee Stock Purchase Plan ("ESPP")
The ESPP allows a maximum of 450,000 shares of common stock to be purchased in aggregate for all employees. As of June 30, 2018 and December 31, 2017, 374,935 and 361,006 shares had been purchased, respectively, and there remained a negligible amount of uninvested employee contributions in the ESPP at June 30, 2018.
Note 16. Mortgage Banking Activities, Net
The following table presents the components of Mortgage banking activities, net, recorded in our consolidated statements of income for the three and six months ended June 30, 2018 and 2017.
Table 16.1 – Mortgage Banking Activities

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Mortgage Banking Activities, Net				
Changes in fair value of:				
Residential loans, at fair value (1)	$3,364	$16,190	$1,170	$34,986
Risk management derivatives (2)	6,150	(5,310)	34,582	(6,710)
Other income, net (3)	1,082	1,166	1,420	1,374
Mortgage Banking Activities, Net	$10,596	$12,046	$37,172	$29,650

(1) Includes changes in fair value for associated loan purchase and forward sale commitments.
(2) Represents market valuation changes of derivatives that were used to manage risks associated with our accumulation of residential loans.
(3) Amounts in this line item include other fee income from loan acquisitions and the provision for repurchases expense, presented net.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

Note 17. Investment Fair Value Changes, Net

The following table presents the components of Investment fair value changes, net, recorded in our consolidated statements of income for the three and six months ended June 30, 2018 and 2017.

Table 17.1 – Investment Fair Value Changes

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Investment Fair Value Changes, Net				
Changes in fair value of:				
Residential loans held-for-investment, at Redwood	$(15,010)	$8,354	$(53,995)	$6,021
Trading securities	(930)	18,926	(3,885)	30,069
Net investments in Legacy Sequoia entities [1]	(720)	(987)	(728)	(2,797)
Net investments in Sequoia Choice entities [1]	1,072	—	986	—
Risk-sharing investments	(209)	(513)	(348)	(718)
Risk management derivatives, net	16,742	(17,838)	60,524	(22,965)
Valuation adjustments on commercial loans held-for-sale	—	300	—	300
Impairments on AFS securities	(56)	(127)	(56)	(244)
Investment Fair Value Changes, Net	$889	$8,115	$2,498	$9,666

(1) Includes changes in fair value of the residential loans held-for-investment, REO and the ABS issued at the entities, which netted together represent the change in value of our retained investments at the consolidated VIEs.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

Note 18. Operating Expenses

Components of our operating expenses for the three and six months ended June 30, 2018 and 2017 are presented in the following table.

Table 18.1 – Components of Operating Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Fixed compensation expense	$5,775	$5,321	$12,214	$11,323
Variable compensation expense	1,825	4,313	8,732	8,246
Equity compensation expense	3,835	3,121	6,532	5,297
Total compensation expense	11,435	12,755	27,478	24,866
Systems and consulting	1,774	1,689	3,640	3,327
Loan acquisition costs (1)	2,155	1,005	3,973	2,210
Office costs	1,084	1,140	2,224	2,243
Accounting and legal	1,074	877	1,908	1,803
Corporate costs	496	508	1,000	948
Other operating expenses	991	667	1,816	1,470
Total Operating Expenses	$19,009	$18,641	$42,039	$36,867

(1) Loan acquisition costs primarily includes underwriting and due diligence costs related to the acquisition of residential loans held-for-sale at fair value.

Note 19. Taxes

For the six months ended June 30, 2018 and 2017, we recognized a provision for income taxes of $7 million and $11 million, respectively. The following is a reconciliation of the statutory federal and state tax rates to our effective tax rate at June 30, 2018 and 2017.

Table 19.1 – Reconciliation of Statutory Tax Rate to Effective Tax Rate

	June 30, 2018	June 30, 2017
Federal statutory rate	21.0 %	34.0 %
State statutory rate, net of Federal tax effect	8.6 %	7.2 %
Differences in taxable (loss) income from GAAP income	(2.9)%	(7.2)%
Change in valuation allowance	(3.3)%	(2.9)%
Dividends paid deduction	(14.9)%	(17.6)%
Effective Tax Rate	8.5 %	13.5 %

The reduction of the federal statutory rate from 34% to 21% is due to the enactment of the Tax Act.

We assessed our tax positions for all open tax years (i.e., Federal, 2014 to 2018, and State, 2013 to 2018) at June 30, 2018 and December 31, 2017, and concluded that we had no uncertain tax positions that resulted in material unrecognized tax benefits.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

Note 20. Segment Information

Redwood operates in two segments: Investment Portfolio and Residential Mortgage Banking. Our segments are based on our organizational and management structure, which aligns with how our results are monitored and performance is assessed. For a full description of our segments, see Item 1—Business in our Annual Report on Form 10-K for the year ended December 31, 2017.

Segment contribution represents the measure of profit that management uses to assess the performance of our business segments and make resource allocation and operating decisions. Certain corporate expenses not directly assigned or allocated to one of our two segments, as well as activity from certain consolidated Sequoia entities, are included in the Corporate/Other column as reconciling items to our consolidated financial statements. These unallocated corporate expenses primarily include interest expense associated with certain long-term debt, indirect operating expenses, and other expense.

The following tables present financial information by segment for the three and six months ended June 30, 2018 and 2017.

Table 20.1 – Business Segment Financial Information

(In Thousands)	Three Months Ended June 30, 2018			
	Investment Portfolio	Residential Mortgage Banking	Corporate/ Other	Total
Interest income	$64,569	$ 13,084	$ 5,323	$ 82,976
Interest expense	(27,004)	(7,629)	(13,580)	(48,213)
Net interest income (loss)	37,565	5,455	(8,257)	34,763
Non-interest income				
Mortgage banking activities, net	—	10,596	—	10,596
Investment fair value changes, net	1,600	—	(711)	889
Other income, net	3,322	—	—	3,322
Realized gains, net	4,714	—	—	4,714
Total non-interest income, net	9,636	10,596	(711)	19,521
Direct operating expenses	(1,858)	(5,611)	(11,540)	(19,009)
Provision for income taxes	(1,130)	(1,398)	—	(2,528)
Segment Contribution	$44,213	$ 9,042	$ (20,508)	
Net Income				$ 32,747
Non-cash amortization income (expense), net	$4,654	$ (23)	$ (814)	$ 3,817

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REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)
Note 20. Segment Information - (continued)

(In Thousands)	Three Months Ended June 30, 2017 Investment Portfolio	Residential Mortgage Banking	Corporate/ Other	Total
Interest income	$45,833	$ 8,415	$4,976	$59,224
Interest expense	(7,231)	(4,403)	(12,600)	(24,234)
Net interest income (loss)	38,602	4,012	(7,624)	34,990
Non-interest income				
Mortgage banking activities, net	—	12,046	—	12,046
Investment fair value changes, net	9,115	—	(1,000)	8,115
Other income, net	3,764	—	—	3,764
Realized gains, net	2,124	—	(752)	1,372
Total non-interest income, net	15,003	12,046	(1,752)	25,297
Direct operating expenses	(1,454)	(6,021)	(11,166)	(18,641)
Provision for income taxes	(2,320)	(3,002)	—	(5,322)
Segment Contribution	$49,831	$ 7,035	$(20,542)	
Net Income				$36,324
Non-cash amortization income (expense)	$5,194	$ (27)	$(744)	$4,423

(In Thousands)	Six Months Ended June 30, 2018 Investment Portfolio	Residential Mortgage Banking	Corporate/ Other	Total
Interest income	$123,326	$ 25,981	$ 10,288	$159,595
Interest expense	(46,867)	(13,766)	(29,094)	(89,727)
Net interest income (loss)	76,459	12,215	(18,806)	69,868
Non-interest income				
Mortgage banking activities, net	—	37,172	—	37,172
Investment fair value changes, net	3,190	—	(692)	2,498
Other income, net	5,440	—	—	5,440
Realized gains, net	14,077	—	—	14,077
Total non-interest income, net	22,707	37,172	(692)	59,187
Direct operating expenses	(3,865)	(14,243)	(23,931)	(42,039)
Provision for income taxes	(2,018)	(5,406)	—	(7,424)
Segment Contribution	$93,283	$ 29,738	$(43,429)	
Net Income				$79,592
Non-cash amortization income (expense)	$9,271	$ (45)	$(1,672)	$7,554

REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)
Note 20. Segment Information - (continued)

(In Thousands)	Six Months Ended June 30, 2017 Investment Portfolio	Residential Mortgage Banking	Corporate/ Other	Total
Interest income	$88,083	$ 15,889	$ 9,880	$113,852
Interest expense	(12,495)	(7,327)	(25,443)	(45,265)
Net interest income (loss)	75,588	8,562	(15,563)	68,587
Non-interest income				
Mortgage banking activities, net	—	29,650	—	29,650
Investment fair value changes, net	12,474	—	(2,808)	9,666
Other income, net	6,661	—	—	6,661
Realized gains, net	7,827	—	(752)	7,075
Total non-interest income, net	26,962	29,650	(3,560)	53,052
Direct operating expenses	(3,047)	(11,902)	(21,918)	(36,867)
Provision for income taxes	(4,057)	(7,422)	—	(11,479)
Segment Contribution	$95,446	$ 18,888	$ (41,041)	
Net Income				$73,293
Non-cash amortization income (expense)	$11,041	$ (54)	$ (1,741)	$9,246

The following table presents the components of Corporate/Other for the three and six months ended June 30, 2018 and 2017.

Table 20.2 – Components of Corporate/Other

(In Thousands)	Three Months Ended June 30, 2018 Legacy Consolidated VIEs (1)	Other	Total	2017 Legacy Consolidated VIEs (1)	Other	Total
Interest income	$5,017	$306	$5,323	$4,863	$113	$4,976
Interest expense	(4,215)	(9,365)	(13,580)	(3,692)	(8,908)	(12,600)
Net interest income (loss)	802	(9,059)	(8,257)	1,171	(8,795)	(7,624)
Non-interest income						
Investment fair value changes, net	(720)	9	(711)	(987)	(13)	(1,000)
Realized gains, net	—	—	—	—	(752)	(752)
Total non-interest income, net	(720)	9	(711)	(987)	(765)	(1,752)
Direct operating expenses	—	(11,540)	(11,540)	—	(11,166)	(11,166)
Total	$82	$(20,590)	$(20,508)	$184	$(20,726)	$(20,542)

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REDWOOD TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)
Note 20. Segment Information - (continued)

	Six Months Ended June 30,					
	2018			2017		
(In Thousands)	Legacy Consolidated VIEs (1)	Other	Total	Legacy Consolidated VIEs (1)	Other	Total
Interest income	$9,829	$459	$10,288	$9,701	$179	$9,880
Interest expense	(8,067)	(21,027)	(29,094)	(7,208)	(18,235)	(25,443)
Net interest income (loss)	1,762	(20,568)	(18,806)	2,493	(18,056)	(15,563)
Non-interest income						
Investment fair value changes, net	(728)	36	(692)	(2,797)	(11)	(2,808)
Realized gains, net	—	—	—	—	(752)	(752)
Total non-interest income, net	(728)	36	(692)	(2,797)	(763)	(3,560)
Direct operating expenses	—	(23,931)	(23,931)	—	(21,918)	(21,918)
Total	$1,034	$(44,463)	$(43,429)	$(304)	$(40,737)	$(41,041)

(1) Legacy consolidated VIEs represent Legacy Sequoia entities that are consolidated for GAAP financial reporting purposes. See Note 4 for further discussion on VIEs.

The following table presents supplemental information by segment at June 30, 2018 and December 31, 2017.
Table 20.3 – Supplemental Segment Information

(In Thousands)	Investment Portfolio	Residential Mortgage Banking	Corporate/ Other	Total
June 30, 2018				
Residential loans	$3,794,481	$1,104,660	$592,029	$5,491,170
Real estate securities	1,453,936	—	—	1,453,936
Total assets	5,591,778	1,124,300	796,473	7,512,551
December 31, 2017				
Residential loans	$3,054,448	$1,427,945	$632,817	$5,115,210
Real estate securities	1,476,510	—	—	1,476,510
Total assets	4,743,873	1,453,069	842,880	7,039,822

Note 21. Subsequent Events
On July 24, 2018, we sold 7,187,500 shares of common stock in an underwritten public offering, resulting in net proceeds of approximately $117 million.
On August 7, 2018, we purchased approximately $100 million of mortgage loans to investors rehabilitating residential homes from an affiliate of 5 Arches LLC, a business-purpose lender and asset manager. As part of this transaction, from time to time, we will purchase 5 Arches' future originations of such loans. We currently own a 20% minority investment in 5 Arches, as described in Note 9.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
INTRODUCTION
Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in six main sections:
- Overview
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements and Contractual Obligations
- Critical Accounting Policies and Estimates
- New Accounting Standards

Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and in Part II, Item 8, Financial Statements and Supplementary Data in our most recent Annual Report on Form 10-K, as well as the sections entitled "Risk Factors" in Part I, Item 1A of our most recent Annual Report on Form 10-K and Part II, Item 1A of this Quarterly Report on Form 10-Q, as well as other cautionary statements and risks described elsewhere in this report and our most recent Annual Report on Form 10-K. The discussion in this MD&A contains forward-looking statements that involve substantial risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, such as those discussed in the Cautionary Statement below.
References herein to "Redwood," the "company," "we," "us," and "our" include Redwood Trust, Inc. and its consolidated subsidiaries, unless the context otherwise requires. Financial information concerning our business is set forth in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and notes thereto, which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q.
Our website can be found at www.redwoodtrust.com. We make available, free of charge through the investor information section of our website, access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission ("SEC"). We also make available, free of charge, access to our charters for our Audit Committee, Compensation Committee, and Governance and Nominating Committee, our Corporate Governance Standards, and our Code of Ethics governing our directors, officers, and employees. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to the Code of Ethics and any waiver applicable to any executive officer or director of Redwood. In addition, our website includes information concerning purchases and sales of our equity securities by our executive officers and directors, and may include disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast, or by similar means from time to time. The information on our website is not part of this Quarterly Report on Form 10-Q.
Our Investor Relations Department can be contacted at One Belvedere Place, Suite 300, Mill Valley, CA 94941, Attn: Investor Relations, telephone (866) 269-4976.

Our Business
Redwood Trust, Inc., together with its subsidiaries, is a specialty finance company focused on making credit-sensitive investments in residential mortgages and related assets and engaging in mortgage banking activities. Our goal is to provide attractive returns to shareholders through a stable and growing stream of earnings and dividends, as well as through capital appreciation. We operate our business in two segments: Investment Portfolio and Residential Mortgage Banking. Our segments are based on our organizational and management structure, which aligns with how our results are monitored and performance is assessed. For a full description of our segments, see Item 1—Business in our Annual Report on Form 10-K for the year ended December 31, 2017.
Our primary sources of income are net interest income from our investment portfolio and non-interest income from our mortgage banking activities. Net interest income consists of the interest income we earn on investments less the interest expense we incur on borrowed funds and other liabilities. Income from mortgage banking activities is generated through the acquisition of loans and their subsequent sale or securitization.
Redwood Trust, Inc. has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), beginning with its taxable year ended December 31, 1994. We generally refer, collectively, to Redwood Trust, Inc. and those of its subsidiaries that are not subject to subsidiary-level corporate income tax as "the REIT" or "our REIT." We generally refer to subsidiaries of Redwood Trust, Inc. that are subject to subsidiary-level corporate income tax as "our operating subsidiaries" or "our taxable REIT subsidiaries" or "TRS." Our mortgage banking activities and investments in MSRs are generally carried out through our taxable REIT subsidiaries, while our portfolio of mortgage- and other real estate-related investments is primarily held at our REIT. We generally intend to retain profits generated and taxed at our taxable REIT subsidiaries, and to distribute as dividends at least 90% of the taxable income we generate at our REIT.
Redwood Trust, Inc. was incorporated in the State of Maryland on April 11, 1994, and commenced operations on August 19, 1994. Our executive offices are located at One Belvedere Place, Suite 300, Mill Valley, California 94941.
Cautionary Statement
This Quarterly Report on Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as "anticipate," "estimate," "will," "should," "expect," "believe," "intend," "seek," "plan" and similar expressions or their forms, or by references to strategy, plans, or intentions. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and this Quarterly Report on Form 10-Q, in each case under the caption "Risk Factors." Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected may be described from time to time in reports we file with the SEC, including reports on Forms 10-Q and 8-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.
Statements regarding the following subjects, among others, are forward-looking by their nature: (i) statements we make regarding Redwood's business strategy and strategic focus, including statements relating to our overall market position, strategy and long-term prospects (including our strategic focus on areas in which our core business strengths are expected to lead to long-term, sustainable earnings growth); (ii) statements related to expanding our mortgage banking activities and investment portfolio to include mortgage loans secured by single-family rental properties; (iii) statements regarding our mortgage banking activities, including expectations relating to residential mortgage banking margins, loan purchase volume, and our expanded-prime Redwood Choice loan program; (iv) statements relating to acquiring residential mortgage loans in the future that we have identified for purchase or plan to purchase, including the amount of such loans that we identified for purchase during the second quarter of 2018 and at June 30, 2018, and expected fallout and the corresponding volume of residential mortgage loans expected to be available for purchase; (v) statements relating to our estimate of our available capital (including that we estimate our available capital at June 30, 2018 was approximately $200 million), and expectations relating to sourcing additional capital from continued optimization of our investment portfolio and from capital markets; (vi) statements we make regarding our dividend

policy, including with respect to our regular quarterly dividends in 2018; and (vii) statements regarding our expectations and estimates relating to the characterization for income tax purposes of our dividend distributions, our expectations and estimates relating to tax accounting, tax liabilities and tax savings, and GAAP tax provisions, and our estimates of REIT taxable income and TRS taxable income.

Important factors, among others, that may affect our actual results include:

- the pace at which we redeploy our available capital into new investments and initiatives;
- our ability to scale our platform and systems, particularly with respect to our new initiatives;
- interest rate volatility, changes in credit spreads, and changes in liquidity in the market for real estate securities and loans;
- changes in the demand from investors for residential mortgages and investments, and our ability to distribute residential mortgages through our whole-loan distribution channel;
- our ability to finance our investments in securities and our acquisition of residential mortgages with short-term debt;
- changes in the values of assets we own;
- general economic trends, the performance of the housing, real estate, mortgage, credit, and broader financial markets, and their effects on the prices of earning assets and the credit status of borrowers;
- federal and state legislative and regulatory developments, and the actions of governmental authorities, including the new U.S. presidential administration, and in particular those affecting the mortgage industry or our business (including, but not limited to, the Federal Housing Finance Agency's rules relating to FHLB membership requirements and the implications for our captive insurance subsidiary's membership in the FHLB);
- strategic business and capital deployment decisions we make;
- developments related to the fixed income and mortgage finance markets and the Federal Reserve's statements regarding its future open market activity and monetary policy;
- our exposure to credit risk and the timing of credit losses within our portfolio;
- the concentration of the credit risks we are exposed to, including due to the structure of assets we hold and the geographical concentration of real estate underlying assets we own;
- our exposure to adjustable-rate mortgage loans;
- the efficacy and expense of our efforts to manage or hedge credit risk, interest rate risk, and other financial and operational risks;
- changes in credit ratings on assets we own and changes in the rating agencies' credit rating methodologies;
- changes in interest rates; changes in mortgage prepayment rates;
- changes in liquidity in the market for real estate securities and loans;
- our ability to finance the acquisition of real estate-related assets with short-term debt;
- the ability of counterparties to satisfy their obligations to us;
- our involvement in securitization transactions, the profitability of those transactions, and the risks we are exposed to in engaging in securitization transactions;
- exposure to claims and litigation, including litigation arising from our involvement in securitization transactions;
- ongoing litigation against various trustees of RMBS transactions;
- whether we have sufficient liquid assets to meet short-term needs;
- our ability to successfully compete and retain or attract key personnel;
- our ability to adapt our business model and strategies to changing circumstances;
- changes in our investment, financing, and hedging strategies and new risks we may be exposed to if we expand our business activities;
- our exposure to a disruption or breach of the security of our technology infrastructure and systems;
- exposure to environmental liabilities;
- our failure to comply with applicable laws and regulations;
- our failure to maintain appropriate internal controls over financial reporting and disclosure controls and procedures;
- the impact on our reputation that could result from our actions or omissions or from those of others; changes in accounting principles and tax rules;
- our ability to maintain our status as a REIT for tax purposes;
- limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940;
- decisions about raising, managing, and distributing capital; and
- other factors not presently identified.

This Quarterly Report on Form 10-Q may contain statistics and other data that in some cases have been obtained from or compiled from information made available by servicers and other third-party service providers.

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OVERVIEW

Business Update

Our business strategy is focused on areas in which our core competencies and competitive strengths are expected to lead to long-term, sustainable earnings growth for Redwood. Specifically, we plan to focus our business on areas that achieve the following:

- Our capital deployment is value-added to the marketplace
- There is a long runway of durable revenues available to us
- Our core strengths are a competitive advantage
- We can scale profitably and realize significant operating efficiencies
- We feel the risks associated with investing can be prudently managed

Our recent and new initiatives are focused on advancing our business strategy. For example, Redwood Choice - our expanded-prime loan channel - now represents almost one-third of our mortgage banking volumes. Our total loan origination volume, meanwhile, remains on track to increase meaningfully from last year amidst declining industry originations. Our investment portfolio continues to deepen its purchasing power by diversifying into other housing investments, such as Freddie Mac-sponsored multifamily bonds. Most recently, our investment in mortgage originator and asset manager 5 Arches gives us access to an attractive pipeline of single-family rental and other “business-purpose” mortgage loans and a growing stream of asset management revenues.

Second Quarter Overview

We carried forward our momentum from earlier this year into the second quarter, making meaningful operational progress and producing solid financial performance. During the second quarter, we increased loan purchase volumes in our mortgage banking business, increased capital deployment in our investment portfolio, and completed our first "M&A" style transaction in several years, advancing on our strategic initiatives. Additionally, in June, we issued $200 million of convertible debt and, in July, after it was announced that we were being added to the S&P SmallCap 600 index, we successfully issued $117 million of common equity in our first follow-on stock offering since 2009.

Our second quarter earnings represented a more normalized level of earnings after outperformance from our mortgage banking operations and higher than usual gains from portfolio optimization in the first quarter. While many companies in our sector experienced book value declines in the second quarter as benchmark interest rates continued to rise, our credit-focused model and hedging strategy helped deliver our ninth consecutive quarterly book value increase. Further, this increase was after paying a second quarter $0.30 per share dividend, which represented a 7% increase from our first quarter dividend.

Investment Portfolio

During the second quarter, we continued to optimize our investment portfolio, selling lower-yielding securities and accelerating the deployment of capital into higher-yielding alternatives, including our new initiatives. Inclusive of the impact of our portfolio hedges, we saw increases in net interest income, resulting from both increased capital deployment and these optimization activities. On a hedge-adjusted basis, portfolio fair values were relatively flat overall during the quarter, with some marginal benefit from spread tightening in parts of our portfolio. Meanwhile, credit fundamentals in our portfolio remained strong, benefiting from continued housing price growth and improvements in the general economy.

Mortgage Banking

Loan purchase volumes in the second quarter increased 8% from the prior quarter and 60% from the same quarter last year, with expanded-prime Choice loans representing about one-third of our loan purchase commitments. Gross margins, which were well above our long-term expected run rate in the first quarter, fell within our long-term expected range in the second quarter as securitization pricing weakened, driven primarily by increased supply in the market. During the second quarter, we completed three traditional Select securitizations and one Choice securitization (our fourth since the inception of our Choice program).

Financial and Operational Overview - Second Quarter of 2018

Highlights

- Our GAAP earnings were $0.38 per share for the second quarter of 2018, as compared with $0.50 per share for the first quarter of 2018. This change was driven primarily by mortgage banking margins which were consistent with our long-term expectations, but lower relative to the first quarter, and fewer realized gains relative to the first quarter.
- Our GAAP book value was $16.23 per share at June 30, 2018, an increase of $0.11 per share from the first quarter, and represented an economic return of 2.5% for the quarter (economic return on book value is based on the change in GAAP book value per common share plus the dividend declared per common share during the quarter). This increase was driven primarily by our quarterly earnings exceeding our dividend and an increase in the value of our long-term debt hedge.
- We deployed $186 million of capital in the second quarter of 2018 toward new investments, including $66 million in Sequoia and third-party RMBS, $65 million in Agency residential CRT securities, and $6 million in Agency multifamily securities. Additionally, we deployed $50 million into new initiatives, including $40 million in customized financing for our jumbo loan sellers and $10 million to acquire a minority interest in business-purpose lender 5 Arches, LLC.
- We sold $108 million of securities during the second quarter of 2018, generating $91 million of capital for reinvestment after the repayment of associated debt.
- We purchased $1.95 billion of residential jumbo loans during the second quarter of 2018. At June 30, 2018, our pipeline of jumbo residential loans identified for purchase was $1.27 billion.
- Residential loan sales totaled $1.94 billion during the second quarter of 2018 and included $1.66 billion of loans that were securitized and $0.28 billion of whole loan sales to third parties.
- We issued $200 million of six-year, 5.625% convertible debt during the second quarter of 2018.
- Our recourse debt to equity leverage ratio was 3.4x at the end of the second quarter of 2018.
- In late July, we raised $117 million of equity capital in our first follow-on stock offering since 2009.

Key Earnings Metrics

The following table presents key earnings metrics for the three and six months ended June 30, 2018.

Table 1 – Key Earnings and Return Metrics

(In Thousands, except per Share Data)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Net income	$32,747	$79,592
Net income per diluted common share	$0.38	$0.88
Annualized GAAP return on equity	11 %	13 %
REIT taxable income per share	$0.35	$0.79
Dividends per share	$0.30	$0.58

A detailed discussion of our second quarter of 2018 net income is included in the Results of Operations section of this MD&A that follows.

Book Value per Share

At June 30, 2018, our book value was $1.23 billion, or $16.23 per share, an increase from $16.12 per share at March 31, 2018. The following table sets forth the changes in our book value per share for the three and six months ended June 30, 2018.

Table 2 – Changes in Book Value per Share

(In Dollars, per share basis)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Beginning book value per share	$16.12	$15.83
Net income	0.38	0.88
Changes in unrealized gains on securities, net, from:		
Realized gains recognized in net income	(0.05)	(0.14)
Amortization income recognized in net income	(0.04)	(0.08)
Mark-to-market adjustments, net	0.01	0.01
Total change in unrealized gains on securities, net	(0.08)	(0.21)
Dividends	(0.30)	(0.58)
Share repurchases	—	0.01
Equity compensation, net	0.03	0.06
Changes in unrealized losses on derivatives hedging long-term debt	0.05	0.16
Other, net	0.03	0.08
Ending Book Value per Share	$16.23	$16.23

Our GAAP book value per share increased $0.11 per share to $16.23 per share during the second quarter of 2018. This increase was driven primarily by earnings exceeding the dividend payment and an increase in the value of our long-term debt hedge.

Unrealized gains on our available-for-sale securities decreased $0.08 per share during the three months ended June 30, 2018. This decrease primarily resulted from $0.05 per share of previously unrealized net gains that were realized as income from the sale of securities, as well as $0.04 per share of discount accretion income recognized in earnings from the appreciation in the amortized cost basis of our available-for-sale securities.

Higher benchmark interest rates during the second quarter of 2018 resulted in a $0.05 per share increase to book value due to a decrease in unrealized losses on the derivatives hedging a portion of our long-term debt. At June 30, 2018, the cumulative unrealized loss on these derivatives, which is included in our GAAP book value per share, was $0.41 per share.

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Capital Allocation Summary

This section provides an overview of our capital position and how it was allocated at June 30, 2018. A detailed discussion of our liquidity and capital resources is provided in the Liquidity and Capital Resources section of this MD&A that follows.

We use a combination of equity and corporate debt (which we collectively refer to as “capital”) to fund our business. Our total capital was $2.00 billion at June 30, 2018, and included $1.23 billion of equity capital and $0.77 billion of the total $2.77 billion of long-term debt on our consolidated balance sheet. This portion of debt included $201 million of exchangeable debt due in 2019, $245 million of convertible debt due in 2023, $200 million of convertible debt due in 2024, and $140 million of trust-preferred securities due in 2037.

We also utilize various forms of collateralized short-term and long-term debt to finance certain investments and to warehouse some of our inventory of residential loans held-for-sale. We do not consider this collateralized debt as "capital" and, therefore, it is presented separately from allocated capital in the table below. The following table presents how our capital was allocated between business segments and investment types at June 30, 2018.

Table 3 – Capital Allocation Summary

At June 30, 2018

(Dollars in Thousands)	Fair Value	Collateralized Debt	Allocated Capital	% of Total Capital
Investment portfolio				
Residential loans [1]	$2,356,356	$(1,999,999)	$356,357	18 %
Securities portfolio				
Third party residential securities	762,792	(241,648)	521,144	26 %
Sequoia residential securities [2]	426,077	(152,565)	273,512	14 %
Multifamily securities [3]	398,785	(312,681)	86,104	4 %
Total securities portfolio	1,587,654	(706,894)	880,760	44 %
Other investments	145,792	—	145,792	7 %
Other assets/(liabilities)	154,549	(56,450)	98,099	5 %
Cash and liquidity capital			308,169	N/A
Total investment portfolio	$4,244,351	$(2,763,343)	1,789,177	90 %
Residential mortgage banking			210,000	10 %
Total			$1,999,177	100 %

(1) Includes $43 million of FHLB stock.

(2) Sequoia residential securities presented above includes $134 million of securities retained from our consolidated Sequoia Choice securitizations. For GAAP purposes we consolidated $1.48 billion of residential loans and $1.35 billion of non-recourse ABS debt associated with these retained securities.

(3) Includes $377 million of multifamily securities, $16 million of investment grade CMBS, and $6 million of single-family securities.

Of our $2.00 billion of total capital at June 30, 2018, $1.79 billion (or 90%) was allocated to our investments with the remaining $210 million (or 10%) allocated to our residential mortgage banking activities.

As of June 30, 2018, our cash and liquidity capital included $200 million of capital available for investment. Additionally, in July 2018, we raised $117 million of capital in an underwritten public offering of our common stock.

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RESULTS OF OPERATIONS

Within this Results of Operations section, we provide commentary that compares results year-over-year for 2018 and 2017. Most tables include a "change" column that shows the amount by which the results from 2018 are greater or less than the results from the respective period in 2017. Unless otherwise specified, references in this section to increases or decreases during the "three-month periods" refer to the change in results for the second quarter of 2018, compared to the second quarter of 2017, and increases or decreases in the "six-month periods" refer to the change in results for the first six months of 2018, compared to the first six months of 2017.

The following table presents the components of our net income for the three and six months ended June 30, 2018 and 2017.

Table 4 – Net Income

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands, except per Share Data)	2018	2017	Change	2018	2017	Change
Net Interest Income	$34,763	$34,990	$(227)	$69,868	$68,587	$1,281
Non-interest Income						
Mortgage banking activities, net	10,596	12,046	(1,450)	37,172	29,650	7,522
Investment fair value changes, net	889	8,115	(7,226)	2,498	9,666	(7,168)
Other income, net	3,322	3,764	(442)	5,440	6,661	(1,221)
Realized gains, net	4,714	1,372	3,342	14,077	7,075	7,002
Total non-interest income, net	19,521	25,297	(5,776)	59,187	53,052	6,135
Operating expenses	(19,009)	(18,641)	(368)	(42,039)	(36,867)	(5,172)
Net income before income taxes	35,275	41,646	(6,371)	87,016	84,772	2,244
Provision for income taxes	(2,528)	(5,322)	2,794	(7,424)	(11,479)	4,055
Net Income	$32,747	$36,324	$(3,577)	$79,592	$73,293	$6,299
Diluted earnings per common share	$0.38	$0.43	$(0.05)	$0.88	$0.85	$0.03

Net Interest Income

Net interest income for both the three- and six-month periods benefited from higher interest income driven by higher average balances of securities in our investment portfolio and residential loans held-for-sale. It also benefited from higher returns on our investment portfolio resulting from our portfolio optimization activities. These increases were offset by higher interest expense on higher average balances and higher rates on our FHLBC borrowings and short-term facilities. We hedge our investment portfolio's exposure to interest rates and the benefit from these hedges is reported in our Investment fair value changes line item, which is discussed below. A more detailed analysis of the changes in net interest income is presented in the "Net Interest Income" section that follows.

Mortgage Banking Activities, Net

The decrease in income from mortgage banking activities during the three-month periods was predominantly due to lower gross margins in 2018, relative to 2017. The increase in income from mortgage banking activities during the six-month periods was primarily due to higher loan purchase volume. A more detailed analysis of the changes in this line item is included in Residential Mortgage Banking portion of the “Results of Operations by Segment” section that follows.

Investment Fair Value Changes, Net

Investment fair value changes, net, is primarily comprised of the change in fair values of our residential loans held-for-investment and financed with FHLB borrowings, our investment securities classified as trading, and interest rate hedges associated with each of these investments. During both the three- and six-month periods, hedge costs and the effect of principal paydowns on our investments were more than offset by the net benefit from spread tightening on our securities portfolio. While net interest income from residential loans declined in the second quarter of 2018 due to rising benchmark interest rates, the net interest expense from the hedges associated with these loans also decreased, effectively offsetting this decline. Additional detail on our investment fair value changes is included in the Investment Portfolio portion of the “Results of Operations by Segment” section that follows.

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Other Income, Net

Other income is primarily comprised of income from our residential loan risk-sharing arrangements with Fannie Mae and Freddie Mac, as well as the net fee income we earn from our MSR investments and the changes in their market value and the market value of their associated derivatives. The decrease in other income for both the three- and six-month periods was primarily from a decrease in income from our MSR investments due to the sale of most of our conforming MSRs in 2017.

Realized Gains, Net

During the three and six months ended June 30, 2018, we realized gains of $5 million and $14 million, primarily from the sale of $41 million and $92 million of AFS securities, respectively, as part of our portfolio optimization. During the three and six months ended June 30, 2017, we realized gains of $2 million and $8 million, primarily from the sale of $19 million and $38 million of AFS securities, respectively. Additionally, during the three months ended June 30, 2017, we realized a $1 million loss from the repurchase of $37 million of convertible debt.

Operating Expenses

The increase in operating expenses during the three- and six-month periods primarily resulted from higher loan acquisition costs due to higher loan purchase volume in 2018, as well as higher expenses associated with implementing new investment initiatives.

Provision for Income Taxes

Our provision for income taxes related almost entirely to activity at our taxable REIT subsidiaries, which primarily includes our mortgage banking activities and MSR investments, as well as certain other investment and hedging activities. For the three- and six-month periods, the decrease in provision for income taxes was driven primarily by the reduction in the federal corporate tax rate in 2018 resulting from the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). For additional detail on income taxes, see the “Taxable Income and Tax Provision” section that follows.

Net Interest Income

The following tables present the components of net interest income for the three and six months ended June 30, 2018 and 2017.

Table 5 – Net Interest Income

	Three Months Ended June 30,					
	2018			2017		
(Dollars in Thousands)	Interest Income/ (Expense) [1]	Average Balance	Yield	Interest Income/ (Expense) [1]	Average Balance	Yield
Interest Income						
Residential loans, held-for-sale	$12,840	$1,127,654	4.6 %	$8,364	$809,231	4.1 %
Residential loans - HFI at Redwood [2]	23,524	2,344,947	4.0 %	23,408	2,358,355	4.0 %
Residential loans - HFI at Legacy Sequoia [2]	5,015	599,203	3.3 %	4,863	716,778	2.7 %
Residential loans - HFI at Sequoia Choice [2]	14,135	1,192,756	4.7 %	—	—	— %
Trading securities	17,368	956,365	7.3 %	10,713	666,009	6.4 %
Available-for-sale securities	8,928	313,530	11.4 %	11,113	444,179	10.0 %
Other interest income	1,166	183,095	2.5 %	763	193,324	1.6 %
Total interest income	82,976	6,717,550	4.9 %	59,224	5,187,876	4.6 %
Interest Expense						
Short-term debt facilities	(12,666)	1,478,332	(3.4)%	(6,563)	1,039,741	(2.5)%
Short-term debt - convertible notes, net	(509)	38,530	(5.3)%	(2,787)	226,385	(4.9)%
ABS issued - Legacy Sequoia [2]	(4,215)	589,261	(2.9)%	(3,705)	700,549	(2.1)%
ABS issued - Sequoia Choice [2]	(12,134)	1,086,602	(4.5)%	—	—	— %
Long-term debt - FHLBC	(9,833)	1,999,999	(2.0)%	(5,071)	1,999,999	(1.0)%
Long-term debt - other	(8,856)	588,765	(6.0)%	(6,108)	379,972	(6.4)%
Total interest expense	(48,213)	5,781,489	(3.3)%	(24,234)	4,346,646	(2.2)%
Net Interest Income	$34,763			$34,990		

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(Dollars in Thousands)	Six Months Ended June 30, 2018 Interest Income/ (Expense) (1)	Average Balance	Yield	2017 Interest Income/ (Expense) (1)	Average Balance	Yield
Interest Income						
Residential loans, held-for-sale	$25,532	$1,164,138	4.4 %	$15,850	$778,361	4.1 %
Residential loans - HFI at Redwood (2)	47,317	2,370,132	4.0 %	45,446	2,304,664	3.9 %
Residential loans - HFI at Legacy Sequoia (2)	9,826	607,803	3.2 %	9,701	736,948	2.6 %
Residential loans - HFI at Sequoia Choice (2)	23,070	971,545	4.7 %	—	—	— %
Trading securities	33,533	937,386	7.2 %	18,930	596,236	6.3 %
Available-for-sale securities	18,458	338,261	10.9 %	22,713	451,275	10.1 %
Other interest income	1,859	211,112	1.8 %	1,212	217,359	1.1 %
Total interest income	159,595	6,600,377	4.8 %	113,852	5,084,843	4.5 %
Interest Expense						
Short-term debt facilities	(23,092)	1,424,185	(3.2)%	(11,016)	917,585	(2.4)%
Short-term debt - convertible notes, net	(3,518)	143,853	(4.9)%	(2,787)	113,818	(4.9)%
ABS issued - Legacy Sequoia (2)	(8,067)	597,859	(2.7)%	(7,235)	719,882	(2.0)%
ABS issued - Sequoia Choice (2)	(19,683)	880,387	(4.5)%	—	—	— %
Long-term debt - FHLBC	(17,860)	1,999,999	(1.8)%	(8,806)	1,999,999	(0.9)%
Long-term debt - other	(17,507)	582,120	(6.0)%	(15,421)	499,932	(6.2)%
Total interest expense	(89,727)	5,628,403	(3.2)%	(45,265)	4,251,216	(2.1)%
Net Interest Income	$69,868			$68,587		

(1) Average balances for residential loans held-for-sale, residential loans held-for-investment, and trading securities are calculated based upon carrying values, which represent estimated fair values. Average balances for available-for-sale securities and debt are calculated based upon amortized historical cost, except for ABS issued, which is based upon fair value.

(2) Interest income from residential loans held-for-investment ("HFI") at Redwood exclude loans HFI at consolidated Sequoia entities. Interest income from residential loans - HFI at Legacy Sequoia and the interest expense from ABS issued - Legacy Sequoia represent activity from our consolidated Legacy Sequoia entities. Interest income from residential loans - HFI at Sequoia Choice and the interest expense from ABS issued - Sequoia Choice represent activity from our consolidated Sequoia Choice entities.

The following table presents net interest income by segment for the three and six months ended June 30, 2018 and 2017.

Table 6 – Net Interest Income by Segment

(In Thousands)	Three Months Ended June 30, 2018	2017	Change	Six Months Ended June 30, 2018	2017	Change
Net Interest Income by Segment						
Investment Portfolio	$37,565	$38,602	$(1,037)	$76,459	$75,588	$871
Residential Mortgage Banking	5,455	4,012	1,443	12,215	8,562	3,653
Corporate/Other	(8,257)	(7,624)	(633)	(18,806)	(15,563)	(3,243)
Net Interest Income	$34,763	$34,990	$(227)	$69,868	$68,587	$1,281

Additional details regarding the activities impacting net interest income at each segment are included in the “Results of Operations by Segment” section that follows.

The Corporate/Other line item in the table above primarily includes interest expense related to long-term debt not directly allocated to our segments and net interest income from consolidated Legacy Sequoia entities. The increase in corporate net interest expense during the three- and six-month periods was primarily due to the issuance of $245 million of convertible notes in August 2017, which was partially offset by the repayment of $250 million of convertible notes in April 2018. Additionally, net interest income from our Legacy Sequoia entities has continued to decrease as the underlying residential loans and ABS issued pay down. Details regarding consolidated Legacy Sequoia entities are included in the "Results of Consolidated Legacy Sequoia Entities" section that follows.
The following table presents the net interest rate spread between the yield on unsecuritized loans and securities and the debt yield of the short-term debt used in part to finance each investment type at June 30, 2018.
Table 7 – Interest Expense — Specific Borrowing Costs

June 30, 2018	Residential Loans Held-for-Sale		Residential Securities	
Asset yield	4.75	%	5.85	%
Short-term debt yield	3.69	%	3.25	%
Net Spread	1.06	%	2.60	%

For additional discussion on short-term debt, including information regarding margin requirements and financial covenants, see “Risks Relating to Debt Incurred under Short-Term and Long-Term Borrowing Facilities" in the Liquidity and Capital Resources section of this MD&A.
Results of Operations by Segment
We report on our business using two distinct segments: Investment Portfolio and Residential Mortgage Banking. Our segments are based on our organizational and management structure, which aligns with how our results are monitored and performance is assessed. For additional information on our segments, refer to Note 20 of our Notes to Consolidated Financial Statements in Part I, Item I of this Quarterly Report on Form 10-Q. The following table presents the segment contribution from our two segments, reconciled to our consolidated net income, for the three and six months ended June 30, 2018 and 2017.
Table 8 – Segment Results Summary

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands)	2018	2017	Change	2018	2017	Change
Segment Contribution from:						
Investment Portfolio	$44,213	$49,831	$(5,618)	$93,283	$95,446	$(2,163)
Residential Mortgage Banking	9,042	7,035	2,007	29,738	18,888	10,850
Corporate/Other	(20,508)	(20,542)	34	(43,429)	(41,041)	(2,388)
Net Income	$32,747	$36,324	$(3,577)	$79,592	$73,293	$6,299

The following sections provide a detailed discussion of the results of operations at each of our two business segments for the three and six months ended June 30, 2018 and 2017.
While the net expense from Corporate/Other was consistent for the three-month periods, the $2 million increase for the six-month periods was due primarily to higher convertible debt interest expense.

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Investment Portfolio Segment

Our Investment Portfolio segment is primarily comprised of our portfolio of residential mortgage loans held-for-investment and financed through the FHLBC and our real estate securities portfolio. Additionally, beginning in the third quarter of 2017, this segment includes residential loans held-for-investment at our consolidated Sequoia Choice entities.

The following table presents the components of segment contribution for the Investment Portfolio segment for the three and six months ended June 30, 2018 and 2017.

Table 9 – Investment Portfolio Segment Contribution

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands)	2018	2017	Change	2018	2017	Change
Interest income	$64,569	$45,833	$18,736	$123,326	$88,083	$35,243
Interest expense	(27,004)	(7,231)	(19,773)	(46,867)	(12,495)	(34,372)
Net interest income	37,565	38,602	(1,037)	76,459	75,588	871
Non-interest income						
Investment fair value changes, net	1,600	9,115	(7,515)	3,190	12,474	(9,284)
Other income, net	3,322	3,764	(442)	5,440	6,661	(1,221)
Realized gains, net	4,714	2,124	2,590	14,077	7,827	6,250
Total non-interest income, net	9,636	15,003	(5,367)	22,707	26,962	(4,255)
Direct operating expenses	(1,858)	(1,454)	(404)	(3,865)	(3,047)	(818)
Segment contribution before income taxes	45,343	52,151	(6,808)	95,301	99,503	(4,202)
Provision for income taxes	(1,130)	(2,320)	1,190	(2,018)	(4,057)	2,039
Total Segment Contribution	$44,213	$49,831	$(5,618)	$93,283	$95,446	$(2,163)

The following table presents our primary portfolios of investment assets in our Investment Portfolio segment at June 30, 2018 and December 31, 2017.

Table 10 – Investment Portfolio

(In Thousands)	June 30, 2018	December 31, 2017	Change
Residential loans held-for-investment at Redwood	$2,313,336	$2,434,386	$(121,050)
Residential securities	1,055,151	1,152,485	(97,334)
Commercial/Multifamily securities	398,785	324,025	74,760
Residential loans held-for-investment at Sequoia Choice (1)	1,481,145	620,062	861,083
Other assets	343,361	212,915	130,446
Total Assets at Investment Portfolio	$5,591,778	$4,743,873	$847,905

(1) Our economic investment in the consolidated Sequoia Choice entities at June 30, 2018 and December 31, 2017 was $135 million and $78 million, respectively. For additional details on our Choice loans, see the subsection titled "Residential Loans Held-for-Investment at Sequoia Choice Portfolio" that follows.

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Overview

During the first six months of 2018, we continued our focus on optimizing our investment portfolio by selling assets that had appreciated in value with lower current yields, and redeployed capital into higher-yielding opportunities. Our sales were mostly comprised of Agency CRT, mezzanine, and legacy securities and our purchases mostly comprised of Sequoia, multifamily securities, and third-party subordinate investments. Through these sales, we captured previously unrealized appreciation, which increased our realized gains during the three and six months ended June 30, 2018. While credit spreads continued to tighten during 2018, the benefit from spread tightening during the three and six months ended June 30, 2018 was lower than for those same periods in 2017, negatively impacting year-over-year results.

Net Interest Income

Net interest income from our Investment Portfolio primarily includes interest income from our residential loans held-for-investment and our securities, as well as the associated interest expense from short-term debt, FHLBC borrowings, and ABS issued. The following table presents the components of net interest income for our Investment Portfolio segment for the three and six months ended June 30, 2018 and 2017.

Table 11 - Net Interest Income ("NII") from Investment Portfolio

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands)	2018	2017	Change	2018	2017	Change
Net interest income from:						
HFI residential loans at Redwood	$13,685	$18,337	$(4,652)	$29,457	$36,640	$(7,183)
HFI residential loans at Sequoia Choice	2,001	—	2,001	3,387	—	3,387
Residential securities	19,398	17,950	1,448	38,917	34,864	4,053
Commercial/Multifamily securities	1,861	1,716	145	3,750	3,090	660
Other interest income	620	599	21	948	994	(46)
NII from Investment Portfolio	$37,565	$38,602	$(1,037)	$76,459	$75,588	$871
Supplemental information:						
Hedge interest income (expense), net	$25	$(3,768)	$3,793	$(2,858)	$(7,461)	$4,603
NII and hedge interest income (expense), net	$37,590	$34,834	$2,756	$73,601	$68,127	$5,474

The changes in net interest income for the three- and six-month periods were due primarily to lower net interest income from residential loans, which decreased primarily as a result of higher interest costs from rising benchmark rates during the past 12 months. These decreases were offset by an increase in net interest income from real estate securities, which mostly resulted from higher average balances in addition to higher yields on these investments, and an increase in net interest income from our investments in Sequoia Choice securitizations that we consolidated for GAAP purposes.

The table above also presents net interest income (expense) from hedges that we use to manage interest rate risk in our investment portfolio and are included as a component of Investment fair value changes, net on our consolidated statements of income. Inclusive of the hedge interest, net interest income increased in both the three- and six-month periods.

Investment fair value changes, net

Market valuation changes included in Investment fair value changes, net, result from changes in the fair value of investments and their associated hedges, generally due to changes in market interest rates, changes in credit spreads, and reductions in the basis of investments due to changes in principal balances. See Note 17 of our Notes to Consolidated Financial Statements in Part I, Item I of this Quarterly Report on Form 10-Q for additional detail regarding the components of Investment fair value changes, net presented on our consolidated statements of income.

The following table presents the components of investment fair value changes for our Investment Portfolio segment, which is comprised of market valuation gains and losses by investment type, inclusive of fair value changes of associated risk management derivatives, for the three and six months ended June 30, 2018 and 2017.

Table 12 - Investment Portfolio Fair Value Changes, Net by Investment Type

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands)	2018	2017	Change	2018	2017	Change
Market valuation changes:						
Residential loans held-for-investment at Redwood	$(1,457)	$(6,078)	$4,621	$(4,195)	$(12,477)	$8,282
Net investments in Sequoia Choice entities [1]	1,072	—	1,072	986	—	986
Residential trading securities	(258)	9,835	(10,093)	654	13,795	(13,141)
Commercial/Multifamily trading securities	2,508	5,997	(3,489)	6,149	12,117	(5,968)
Other valuation changes	(265)	(639)	374	(404)	(961)	557
Investment Fair Value Changes, Net	$1,600	$9,115	$(7,515)	$3,190	$12,474	$(9,284)

(1) Includes changes in fair value of the residential loans held-for-investment and the ABS issued at the entities, which netted together represent the change in value of our retained investments (senior and subordinate securities) at the consolidated VIEs.

During the three and six months ended June 30, 2018 and 2017, the negative investment fair value changes from loans and their associated derivatives primarily resulted from hedging costs, which decreased year-over-year due to rising interest rates. The increase in fair values from securities and their associated derivatives during both periods primarily resulted from tighter spreads on these investments, partially offset by hedging costs and decreases in fair value from reductions in the basis of IO securities from associated principal repayments.

Other Income, net

The following table presents the components of MSR income, net for the three and six months ended June 30, 2018 and 2017.

Table 13 – MSR Income, net

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Net servicing fee income	$3,464	$5,852	$6,667	$11,379
Changes in fair value of MSR from the receipt of expected cash flows	(1,688)	(3,065)	(3,142)	(5,478)
MSR reversal of provision for repurchases	277	307	277	312
MSR income before the effect of changes in interest rates and other assumptions	2,053	3,094	3,802	6,213
Changes in fair value of MSRs from interest rates and other assumptions [1]	943	(3,356)	5,289	(4,013)
Changes in fair value of associated derivatives	(1,122)	3,040	(6,261)	2,291
Total net effect of changes in assumptions and rates	(179)	(316)	(972)	(1,722)
MSR Income, Net [2]	$1,874	$2,778	$2,830	$4,491

(1) Primarily reflects changes in prepayment assumptions on our MSRs due to changes in benchmark interest rates.
(2) MSR income, net is included in Other income, net on our consolidated statements of income.

MSR income declined for the first six months of 2018 as compared with the same period last year, primarily due to the sale of most of our conforming MSRs in 2017.

Realized Gains, net

During the three months ended June 30, 2018, we realized gains of $5 million, primarily from the sale of $41 million of AFS securities. During the three months ended June 30, 2017, we realized gains of $2 million, primarily from the sale of $19 million of AFS securities.

Direct Operating Expenses and Provision for Income Taxes

The increase in operating expenses at our Investment Portfolio segment for the three- and six-month periods was primarily attributable to higher compensation expense, as we added resources to support our single-family rental and multifamily investments.

The provision for income taxes at our Investment Portfolio segment primarily results from GAAP income earned at our TRS from MSRs and certain securities. For the three- and six-month periods, the decrease in the tax provision primarily resulted from the reduction of the federal corporate tax rate due to the Tax Act.

Residential Loans Held-for-Investment at Redwood Portfolio

The following table provides the activity of residential loans held-for-investment at Redwood during the three and six months ended June 30, 2018 and 2017.

Table 14 – Residential Loans Held-for-Investment at Redwood - Activity

(In Thousands)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Fair value at beginning of period	$2,375,785	$2,434,386
Transfers between portfolios (1)	31,936	87,711
Principal repayments	(79,375)	(154,329)
Changes in fair value, net	(15,010)	(54,432)
Fair Value at End of Period	$2,313,336	$2,313,336

(1) Represents the net transfers of loans into our Investment Portfolio segment from our Residential Mortgage Banking segment and their reclassification from held-for-sale to held-for-investment.

The decrease in the balance of loans held-for-investment during the three months ended June 30, 2018 was primarily due to principal repayments and a decrease in fair value of the loans during this period, resulting from rising benchmark interest rates. As our loans held-for-investment are generally fixed-rate and sensitive to changes in interest rates, we utilize various interest rate derivatives to hedge our interest rate risk for these investments. As a result of rising interest rates during the three and six months ended June 30, 2018, interest rate derivatives associated with these investments increased in value by $14 million and $50 million, respectively.

At June 30, 2018, $2.31 billion of loans were held by our FHLB-member subsidiary and were financed with $2.00 billion of borrowings from the FHLBC. In connection with these borrowings, our FHLB-member subsidiary is required to hold $43 million of FHLB stock.

At June 30, 2018, the weighted average maturity of these FHLB borrowings was approximately seven years and they had a weighted average cost of 2.03% per annum. This interest cost resets every 13 weeks and we seek to fix the interest cost of these FHLB borrowings over their weighted average maturity by using a combination of swaps, TBAs and other derivatives.

Under a final rule published by the Federal Housing Finance Agency in January 2016, our FHLB-member subsidiary will remain an FHLB member through the five-year transition period for captive insurance companies. Our FHLB-member subsidiary's existing $2.00 billion of FHLB debt, which matures beyond this transition period, is permitted to remain outstanding until its stated maturity. As residential loans pledged as collateral for this debt pay down, we are permitted to pledge additional loans or other eligible assets to collateralize this debt; however, we do not expect to be able to increase our subsidiary's FHLB debt above the existing $2.00 billion.

The following table presents the unpaid principal balances for residential real estate loans held-for-investment at fair value by product type at June 30, 2018.

Table 15 – Characteristics of Residential Real Estate Loans Held-for-Investment at Redwood

June 30, 2018

(Dollars in Thousands)	Principal Balance	Weighted Average Coupon
Fixed - 30 year	$2,042,044	4.09 %
Fixed - 15, 20, & 25 year	66,031	3.66 %
Hybrid	233,292	4.09 %
Total Outstanding Principal	$2,341,367	

The outstanding loans held-for-investment at Redwood at June 30, 2018 were prime-quality, first lien loans, of which 96% were originated between 2013 and 2018 and 4% were originated in 2012 and prior years. The weighted average FICO score of borrowers backing these loans was 770 (at origination) and the weighted average loan-to-value ("LTV") ratio was 66% (at origination). At June 30, 2018, three of these loans with a total unpaid principal balance of $1 million were greater than 90 days delinquent and none of these loans were in foreclosure.

Real Estate Securities Portfolio

The following table sets forth our real estate securities activity by collateral type in our Investment Portfolio segment for the three and six months ended June 30, 2018.

Table 16 – Real Estate Securities Activity by Collateral Type

Three Months Ended June 30, 2018	Residential			Commercial (2)	Total
(In Thousands)	Senior (1)	Mezzanine	Subordinate	Mezzanine	
Beginning fair value	$247,672	$228,114	$504,926	$377,008	$1,357,720
Acquisitions					
Sequoia securities	10,866	14,204	2,047	—	27,117
Third-party securities	49,031	28,964	88,101	29,809	195,905
Sales					
Sequoia securities	—	(28,661)	—	—	(28,661)
Third-party securities	(10,409)	—	(64,320)	(4,969)	(79,698)
Gains on sales and calls, net	2,401	2,273	40	—	4,714
Effect of principal payments (3)	(8,612)	(2,389)	(2,685)	(3,376)	(17,062)
Change in fair value, net	(5,130)	(3,398)	2,116	313	(6,099)
Ending Fair Value (4)	$285,819	$239,107	$530,225	$398,785	$1,453,936

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Six Months Ended June 30, 2018	Residential			Commercial (2)	Total
(In Thousands)	Senior (1)	Mezzanine	Subordinate	Mezzanine	
Beginning fair value	$249,838	$331,452	$571,195	$324,025	$1,476,510
Acquisitions					
Sequoia securities	23,357	14,204	5,952	—	43,513
Third-party securities	49,031	40,308	121,539	113,096	323,974
Sales					
Sequoia securities	—	(54,743)	(12,052)	—	(66,795)
Third-party securities	(19,564)	(81,432)	(152,808)	(31,632)	(285,436)
Gains on sales and calls, net	4,893	4,354	4,830	—	14,077
Effect of principal payments (3)	(15,960)	(5,200)	(5,047)	(6,562)	(32,769)
Change in fair value, net	(5,776)	(9,836)	(3,384)	(142)	(19,138)
Ending Fair Value (4)	$285,819	$239,107	$530,225	$398,785	$1,453,936

(1) Includes $34 million of re-REMIC securities at June 30, 2018.

(2) Our commercial securities are primarily comprised of Agency multifamily securities.

(3) The effect of principal payments reflects the change in fair value due to principal payments, which is calculated as the cash principal received on a given security during the period multiplied by the prior quarter ending price or acquisition price for that security.

(4) Excludes $134 million of securities retained from our consolidated Sequoia Choice securitizations at June 30, 2018. For additional details on our Choice loans, see the subsection titled "Residential Loans Held-for-Investment at Sequoia Choice Portfolio" that follows.

During the three and six months ended June 30, 2018, we sold $108 million and $352 million, respectively, of mostly lower-yielding securities as part of our ongoing portfolio optimization activities.

At June 30, 2018, our securities consisted of fixed-rate assets (65%), adjustable-rate assets (28%), hybrid assets that reset within the next year (6%), and hybrid assets that reset between 12 and 36 months (1%). For the portions of our securities portfolio that are sensitive to changes in interest rates, we seek to minimize this interest rate risk by using various derivative instruments.

We directly finance our holdings of real estate securities with a combination of capital and collateralized debt in the form of repurchase (or "repo") financing. The following table presents the fair value of our residential securities that were financed with repurchase debt at June 30, 2018.

Table 17 – Real Estate Securities Financed with Repurchase Debt

June 30, 2018 (Dollars in Thousands, except Weighted Average Price)	Real Estate Securities (1)	Repurchase Debt	Allocated Capital	Weighted Average Price(2)	Financing Haircut(3)
Residential Securities					
Senior	$ 161,038	$ (142,106)	$ 18,932	$ 98	12 %
Mezzanine (4)	292,571	(252,107)	40,464	96	14 %
Total Residential Securities	453,609	(394,213)	59,396	95	13 %
Commercial/Multifamily Securities	392,383	(312,681)	79,702	96	20 %
Total	$ 845,992	$ (706,894)	$ 139,098		

(1) Amounts represent carrying value of securities, which are held at GAAP fair value.
(2) GAAP fair value per $100 of principal.
(3) Allocated capital divided by GAAP fair value.
(4) Includes $88 million of securities retained from our consolidated Sequoia Choice securitizations at June 30, 2018.

At June 30, 2018, we had short-term debt incurred through repurchase facilities of $707 million, which was secured by $846 million of real estate securities. The remaining $742 million of our securities, including certain securities retained from our consolidated Sequoia Choice securitizations, were financed with capital. Our repo borrowings were made under facilities with seven different counterparties, and the weighted average cost of funds for these facilities during the second quarter of 2018 was approximately 3.20% per annum.

At June 30, 2018, the securities we financed through repurchase facilities had no material credit issues. In addition to the allocated capital listed in the table above that directly supports our repurchase facilities (the "financing haircut"), we continue to hold a designated amount of supplemental risk capital available for potential margin calls or future obligations relating to these facilities.

The majority of the $161 million of senior securities noted in the table above are supported by seasoned residential loans originated prior to 2008. The $293 million of mezzanine securities financed through repurchase facilities at June 30, 2018 carry investment grade credit ratings and are supported by residential loans originated between 2012 and 2018. The loans underlying these securities have experienced minimal delinquencies to date. The $392 million of multifamily securities financed through repurchase facilities at June 30, 2018 carry investment grade credit ratings with 7%-8% of structural credit enhancement.

The following table presents our real estate securities at June 30, 2018 and December 31, 2017, categorized by portfolio vintage (the years the securities were issued), and by priority of cash flows (senior, mezzanine, and subordinate). We have additionally separated securities issued through our Sequoia platform or by third parties, including the Agencies.

Table 18 – Real Estate Securities by Vintage and Type

June 30, 2018 (In Thousands)	Sequoia 2012-2018	Third Party 2013-2018	Agency CRT 2013-2018	Third Party <=2008	Total Residential Securities	Commercial 2015-2018	Total Real Estate Securities
Senior (1)(2)	$ 59,628	$ 76,848	$ —	$ 149,343	$ 285,819	$ —	$ 285,819
Mezzanine (3)	101,192	137,915	—	—	239,107	398,785	637,892
Subordinate (1)	131,539	140,969	239,767	17,950	530,225	—	530,225
Total Securities (4)	$ 292,359	$ 355,732	$ 239,767	$ 167,293	$ 1,055,151	$ 398,785	$ 1,453,936

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December 31, 2017 (In Thousands)	Sequoia 2012-2017	Third Party 2013-2017	Agency CRT 2013-2017	Third Party <=2008	Total Residential Securities	Commercial 2015-2017	Total Real Estate Securities
Senior [(1)(2)]	$ 33,773	$ 33,517	$ —	$ 182,548	$ 249,838	$ —	$ 249,838
Mezzanine [(3)]	147,466	183,985	—	—	331,451	324,025	655,476
Subordinate [(1)]	139,442	108,455	300,713	22,586	571,196	—	571,196
Total Securities [(4)]	$ 320,681	$ 325,957	$ 300,713	$ 205,134	$ 1,152,485	$ 324,025	$ 1,476,510

(1) At June 30, 2018 and December 31, 2017, senior Sequoia and third-party securities included $89 million and $70 million of IO securities, respectively. At both June 30, 2018 and December 31, 2017, subordinate third-party securities included $12 million of IO securities.

(2) Our interest-only securities included $39 million and $15 million of A-IO-S securities at June 30, 2018 and December 31, 2017, respectively, which are securities we retained from certain of our Sequoia securitizations. These securities represent certificated servicing strips and therefore may be negatively impacted by the operating and funding costs related to servicing the associated securitized mortgage loans.

(3) Mezzanine includes securities initially rated AA through BBB- and issued in 2012 or later.

(4) Excludes $134 million and $78 million of securities retained from our consolidated Sequoia Choice securitizations at June 30, 2018 and December 31, 2017, respectively. For GAAP purposes we consolidated $1.48 billion of residential loans and $1.35 billion of non-recourse ABS debt associated with these retained securities.

The following tables present the components of the interest income we earned on AFS securities for the three and six months ended June 30, 2018 and 2017.

Table 19 – Interest Income — AFS Securities

Three Months Ended June 30, 2018					Yield as a Result of		
(Dollars in Thousands)	Interest Income	Discount (Premium) Amortization	Total Interest Income	Average Amortized Cost	Interest Income	Discount (Premium) Amortization	Total Interest Income
Residential							
Senior	$ 1,741	$ 2,185	$ 3,926	$ 116,862	5.96 %	7.48 %	13.44 %
Mezzanine	532	226	758	49,951	4.26 %	1.81 %	6.07 %
Subordinate	2,807	1,437	4,244	146,717	7.65 %	3.92 %	11.57 %
Total AFS Securities	$ 5,080	$ 3,848	$ 8,928	$ 313,530	6.48 %	4.91 %	11.39 %

Three Months Ended June 30, 2017					Yield as a Result of		
(Dollars in Thousands)	Interest Income	Discount (Premium) Amortization	Total Interest Income	Average Amortized Cost	Interest Income	Discount (Premium) Amortization	Total Interest Income
Residential							
Senior	$ 2,173	$ 2,812	$ 4,985	$ 158,659	5.48 %	7.09 %	12.57 %
Mezzanine	1,263	614	1,877	131,574	3.84 %	1.87 %	5.71 %
Subordinate	2,872	1,379	4,251	153,946	7.46 %	3.58 %	11.04 %
Total AFS Securities	$ 6,308	$ 4,805	$ 11,113	$ 444,179	5.68 %	4.33 %	10.01 %

Six Months Ended June 30, 2018					Yield as a Result of		
(Dollars in Thousands)	Interest Income	Discount (Premium) Amortization	Total Interest Income	Average Amortized Cost	Interest Income	Discount (Premium) Amortization	Total Interest Income
Residential							
Senior	$ 3,567	$ 4,671	$ 8,238	$ 123,924	5.76 %	7.54 %	13.30 %
Mezzanine	1,298	542	1,840	61,467	4.22 %	1.76 %	5.98 %
Subordinate	5,685	2,695	8,380	152,870	7.44 %	3.53 %	10.97 %
Total AFS Securities	$ 10,550	$ 7,908	$ 18,458	$ 338,261	6.24 %	4.68 %	10.92 %

Six Months Ended June 30, 2017					Yield as a Result of		
(Dollars in Thousands)	Interest Income	Discount (Premium) Amortization	Total Interest Income	Average Amortized Cost	Interest Income	Discount (Premium) Amortization	Total Interest Income
Residential							
Senior	$4,382	$ 5,928	$10,310	$161,987	5.41%	7.32 %	12.73%
Mezzanine	2,682	1,268	3,950	139,538	3.84%	1.82 %	5.66 %
Subordinate	5,583	2,870	8,453	149,750	7.46%	3.83 %	11.29%
Total AFS Securities	$12,647	$ 10,066	$22,713	$451,275	5.61%	4.46 %	10.07%

Residential Loans Held-for-Investment at Sequoia Choice Portfolio

During the second half of 2017 and the first half of 2018, we issued four securitizations primarily comprised of expanded-prime Choice loans. We consolidate the Sequoia Choice securitization entities for financial reporting purposes in accordance with GAAP. These entities are independent of Redwood and the assets and liabilities of these entities are not, respectively, owned by us or legal obligations of ours. We record the assets and liabilities of the consolidated Sequoia Choice entities at fair value, based on the estimated fair value of the debt securities (ABS) issued from the securitizations, in accordance with GAAP provisions for collateralized financing entities. At June 30, 2018, the estimated fair value of our economic investments in the consolidated Sequoia Choice entities was $135 million, and was comprised of retained senior and subordinate securities.

The following tables present the statements of income for the three and six months ended June 30, 2018 and 2017 and the balance sheets of the consolidated Sequoia Choice entities at June 30, 2018 and December 31, 2017. All amounts in the statements of income and balance sheets presented below are included in our consolidated financial statements and are included in our Investment Portfolio segment.

Table 20 – Consolidated Sequoia Choice Entities Statements of Income

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands)	2018	2017	Change	2018	2017	Change
Interest income	$14,135	$ —	$14,135	$23,070	$ —	$23,070
Interest expense	(12,134)	—	(12,134)	(19,683)	—	(19,683)
Net interest income	2,001	—	2,001	3,387	—	3,387
Investment fair value changes, net	1,073	—	1,073	987	—	987
Net Income from Consolidated Sequoia Choice Entities	$3,074	$ —	$3,074	$4,374	$ —	$4,374

Table 21 – Consolidated Sequoia Choice Entities Balance Sheets

(In Thousands)	June 30, 2018	December 31, 2017
Residential loans, held-for-investment, at fair value	$1,481,145	$620,062
Other assets	5,966	2,528
Total Assets	$1,487,111	$622,590
Other liabilities	$5,048	$2,035
Asset-backed securities issued, at fair value	1,347,427	542,140
Total liabilities	1,352,475	544,175
Equity (fair value of Redwood's retained investments in entities)	134,636	78,415
Total Liabilities and Equity	$1,487,111	$622,590

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The following table presents residential loan activity at the consolidated Sequoia Choice entities for the three and six months ended June 30, 2018 and 2017.

Table 22 – Residential Loans Held-for-Investment at Sequoia Choice - Activity

(In Thousands)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Balance at beginning of period	$1,013,619	$620,062
New securitization issuance	529,773	981,633
Principal repayments	(58,299)	(108,326)
Changes in fair value, net	(3,948)	(12,224)
Balance at End of Period	$1,481,145	$1,481,145

During the three and six months ended June 30, 2018, we had transfers of $530 million and $982 million of consolidated Sequoia Choice loans, respectively, from our Residential Mortgage banking segment to our Investment Portfolio segment. The outstanding loans held-for-investment at our Sequoia Choice entities at June 30, 2018 were primarily comprised of prime-quality, first lien, 30-year, fixed-rate loans and were originated in 2012 or later. The gross weighted average coupon of these loans was 4.62%, the weighted average FICO score of borrowers backing these loans was 743 (at origination) and the weighted average original LTV ratio was 74% (at origination). At both June 30, 2018 and December 31, 2017, none of these loans were greater than 90 days delinquent or in foreclosure.

Mortgage Servicing Rights Portfolio

Our MSRs are held and managed at our taxable REIT subsidiary and typically are acquired together with loans from originators and then separately recognized under GAAP when the MSR is retained and the associated loan is sold to a third party or transferred to a Sequoia residential securitization sponsored by us that meets the GAAP criteria for sale. In addition, we have also purchased MSRs on a flow basis from third parties that sold the associated loans directly to the Agencies. Although we own the rights to service loans, we contract with sub-servicers to perform these activities. Our receipt of MSR income is not subject to any covenants other than customary performance obligations associated with servicing residential loans. If a sub-servicer we contract with was to fail to perform these obligations, our servicing rights could be terminated and we would evaluate our MSR asset for impairment at that time.

The following table provides the activity for MSRs for the three and six months ended June 30, 2018.

Table 23 – MSR Activity

(In Thousands)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Balance at beginning of period	$66,496	$63,598
Sold MSRs	(1,077)	(1,077)
Market valuation adjustments	(745)	2,153
Balance at End of Period	$64,674	$64,674

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The following table presents characteristics of our MSR investments and their associated loans at June 30, 2018.

Table 24 – Characteristics of MSR Investments Portfolio

(Dollars in Thousands)	June 30, 2018	
Unpaid principal balance	$5,160,140	
Fair value of MSRs	$64,674	
MSR values as percent of unpaid principal balance	1.25	%
Gross cash yield (1)	0.26	%
Number of loans	7,777	
Average loan size	$664	
Average coupon	3.96	%
Average loan age (months)	48	
Average original loan-to-value	67	%
Average original FICO score	771	
60+ day delinquencies	0.20	%

(1) Gross cash yield is calculated by dividing the annualized quarterly gross servicing fees we received for the three months ended June 30, 2018, by the weighted average notional balance of loans associated with MSRs we owned during that period.

At June 30, 2018, nearly all of our MSRs were comprised of base MSRs and we did not own any portion of a servicing right related to any loan where we did not own the entire servicing right. At both June 30, 2018 and December 31, 2017, we had $1 million of servicer advances outstanding related to our MSRs, which are presented in Other assets on our consolidated balance sheets.

Residential Mortgage Banking Segment

The following table presents the components of segment contribution for the Residential Mortgage Banking segment for the three and six months ended June 30, 2018 and 2017.

Table 25 – Residential Mortgage Banking Segment Contribution

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands)	2018	2017	Change	2018	2017	Change
Interest income	$13,084	$8,415	$4,669	$25,981	$15,889	$10,092
Interest expense	(7,629)	(4,403)	(3,226)	(13,766)	(7,327)	(6,439)
Net interest income	5,455	4,012	1,443	12,215	8,562	3,653
Mortgage banking activities, net	10,596	12,046	(1,450)	37,172	29,650	7,522
Direct operating expenses	(5,611)	(6,021)	410	(14,243)	(11,902)	(2,341)
Segment contribution before income taxes	10,440	10,037	403	35,144	26,310	8,834
Provision for income taxes	(1,398)	(3,002)	1,604	(5,406)	(7,422)	2,016
Segment Contribution	$9,042	$7,035	$2,007	$29,738	$18,888	$10,850

The following tables provide the activity of unsecuritized residential loans during the three and six months ended June 30, 2018 and 2017.

Table 26 – Residential Loans Held-for-Sale — Activity

	Three Months Ended June 30,					
	2018			2017		
(In Thousands)	Select	Choice	Total	Select	Choice	Total
Balance at beginning of period	$766,105	$364,080	$1,130,185	$345,397	$31,210	$376,607
Acquisitions	1,343,224	608,342	1,951,566	1,082,645	138,406	1,221,051
Sales	(1,399,862)	(8,496)	(1,408,358)	(684,016)	(10,859)	(694,875)
Transfers between portfolios (1)	(22,542)	(539,168)	(561,710)	(15,741)	(46,181)	(61,922)
Principal repayments	(7,374)	(7,238)	(14,612)	(9,215)	(58)	(9,273)
Changes in fair value, net	1,265	6,324	7,589	6,298	(515)	5,783
Balance at End of Period	$680,816	$423,844	$1,104,660	$725,368	$112,003	$837,371

	Six Months Ended June 30,					
	2018			2017		
(In Thousands)	Select	Choice	Total	Select	Choice	Total
Balance at beginning of period	$1,101,356	$326,589	$1,427,945	$765,058	$70,341	$835,399
Acquisitions	2,611,154	1,155,706	3,766,860	2,049,481	279,874	2,329,355
Sales	(2,990,603)	(12,286)	(3,002,889)	(1,959,148)	(113,364)	(2,072,512)
Transfers between portfolios (1)	(22,542)	(1,046,784)	(1,069,326)	(123,054)	(123,864)	(246,918)
Principal repayments	(20,608)	(11,021)	(31,629)	(20,092)	(2,176)	(22,268)
Changes in fair value, net	2,059	11,640	13,699	13,123	1,192	14,315
Balance at End of Period	$680,816	$423,844	$1,104,660	$725,368	$112,003	$837,371

(1) Represents the net transfers of loans out of our Residential Mortgage Banking segment into our Investment Portfolio segment and their reclassification from held-for-sale to held-for-investment. Includes $530 million and $982 million of Choice loans securitized during the three and six months ended June 30, 2018, respectively, which were not treated as sales for GAAP purposes and continue to be reported on our consolidated balance sheets within our Investment Portfolio segment.

Overview

During the first six months of 2018, we purchased $3.77 billion of predominately prime residential jumbo loans, securitized $2.43 billion of jumbo Select loans that were accounted for as sales, and sold $570 million of jumbo loans to third parties. Additionally, we transferred $982 million of jumbo Choice loans that did not qualify for sales accounting treatment under GAAP to Sequoia securitization entities and we had net transfers of $88 million of loans to our Investment Portfolio segment that were financed with borrowings from the FHLBC. Our pipeline of loans identified for purchase at June 30, 2018 included $1.27 billion of jumbo loans.

We utilize a combination of capital and our residential loan warehouse facilities to manage our inventory of residential loans held-for-sale. At June 30, 2018, we had $719 million of warehouse debt outstanding to fund our residential loans held-for-sale. The weighted average cost of the borrowings outstanding under these facilities during the second quarter of 2018 was 3.60% per annum. Our warehouse capacity at June 30, 2018 totaled $1.43 billion across four separate counterparties, which should continue to provide sufficient liquidity to fund our residential mortgage banking operations in the near-term.

Our residential mortgage banking operations created investments that allowed us to deploy $63 million of capital into our investment portfolio during the first half of 2018. At June 30, 2018, we had 470 loan sellers, up from 451 at the end of 2017. This included 181 jumbo sellers and 289 sellers from various FHLB districts participating in the FHLB's MPF Direct program.

Net Interest Income

Net interest income from residential mortgage banking is primarily comprised of interest income earned on residential loans from the time we purchase the loans to when we sell or securitize them, offset by interest expense incurred on short-term warehouse debt used in part to finance the loans while we hold them on our consolidated balance sheet.

The increase in net interest income during the three- and six-month periods was primarily due to a higher average balance of residential loans held in inventory, net of higher warehouse borrowings used to finance our residential loans held-for-sale during 2018.

The amount of net interest income we earn on loans held-for-sale is dependent on many variables, including the amount of loans and the time they are outstanding on our consolidated balance sheet and their interest rates, as well as the amount of leverage we employ through the use of short-term debt to finance the loans and the interest rates on that debt. These factors will impact net interest income in future periods.

Mortgage Banking Activities, Net

Mortgage banking activities, net, includes the changes in market value of both the loans we hold for sale and commitments for loans we intend to purchase (collectively, our loan pipeline), as well as the effect of hedges we utilize to manage risks associated with our loan pipeline. Our loan sale profit margins are measured over the period from when we commit to purchase a loan and subsequently sell or securitize the loan. Accordingly, these profit margins may encompass positive or negative market valuation adjustments on loans, hedging gains or losses associated with our loan pipeline, and any other related transaction expenses, and may be realized over the course of one or more quarters for financial reporting purposes.

The following table presents the components of residential mortgage banking activities, net. Amounts presented include both the changes in market values for loans that were sold and associated derivative positions that were settled during the periods presented, as well as changes in market values of loans, derivatives and hedges outstanding at the end of each period.

Table 27 – Components of Residential Mortgage Banking Activities, Net

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands)	2018	2017	Change	2018	2017	Change
Changes in fair value of:						
Residential loans, at fair value [(1)]	$3,364	$16,190	$(12,826)	$1,170	$34,986	$(33,816)
Risk management derivatives [(2)]	6,150	(5,310)	11,460	34,582	(6,710)	41,292
Other income, net [(3)]	1,082	1,166	(84)	1,420	1,374	46
Total Residential Mortgage Banking Activities, Net	$10,596	$12,046	$(1,450)	$37,172	$29,650	$7,522

(1) Includes changes in fair value for loan purchase and forward sale commitments.

(2) Represents market valuation changes of derivatives that are used to manage risks associated with our accumulation of residential loans.

(3) Amounts in this line include other fee income from loan acquisitions and the provision for repurchase expense, presented net.

The decrease in mortgage banking activities, net for the three-month periods was mostly the result of lower gross margins as compared to the prior year period. The increase in mortgage banking activities, net for the six-month periods was mostly the result of higher loan purchase volume in 2018 compared to 2017, with the majority of the increase being from Choice loans.

Loan purchase commitments ("LPCs"), adjusted for fallout expectations, were $2.01 billion and $3.73 billion for the three and six months ended June 30, 2018, respectively. Our gross margins for our jumbo loans, which we define as net interest income plus income from mortgage banking activities, divided by LPCs, declined as a result of gross margins that were lower relative to the first quarter of 2018 but remained within our long-term expectations.

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At both June 30, 2018 and December 31, 2017, we had repurchase reserves of $4 million outstanding related to residential loans sold through this segment. For the six months ended June 30, 2018 and 2017, we recorded $0.2 million and $0.6 million of reversal of provision for repurchases, respectively, that were included in income from mortgage banking activities, net, in this segment. We review our loan repurchase reserves each quarter and adjust them as necessary based on current information available at each reporting date.
The following table details outstanding principal balances for residential loans held-for-sale by product type at June 30, 2018.

Table 28 – Characteristics of Residential Loans Held-for-Sale

June 30, 2018 (Dollars in Thousands)	Principal Value	Weighted Average Coupon	
First Lien Prime			
Fixed - 30 year	$999,324	4.79	%
Fixed - 10, 15, 20, & 25 year	22,717	4.29	%
Hybrid	69,145	4.24	%
ARM	153	4.33	%
Total Outstanding Principal	$1,091,339		

Operating Expenses and Taxes

Operating expenses for this segment primarily include costs associated with the underwriting, purchase and sale of jumbo residential loans. Operating expenses were consistent for the three-month periods and increased for the six-month periods primarily as a result of higher loan acquisition costs due to higher loan purchase volume in 2018. All residential mortgage banking activities are performed at our taxable REIT subsidiary and the provision for income taxes is generally correlated to the amount of this segment's contribution before income taxes in relation to the TRS's overall GAAP income and associated tax provision. The decrease in provision for income taxes resulted primarily from the reduction of the federal corporate tax rate due to the Tax Act.

Results of Consolidated Legacy Sequoia Entities

We sponsored Sequoia securitization entities prior to 2012 that are reported on our consolidated balance sheets for financial reporting purposes in accordance with GAAP. Each of these entities is independent of Redwood and of each other and the assets and liabilities of these entities are not, respectively, owned by us or legal obligations of ours. We record the assets and liabilities of the consolidated Legacy Sequoia entities at fair value, based on the estimated fair value of the debt securities (ABS) issued from the securitizations, in accordance with GAAP provisions for collateralized financing entities. At June 30, 2018, the estimated fair value of our investments in the consolidated Legacy Sequoia entities was $13 million.

The following tables present the statements of income (loss) for the three and six months ended June 30, 2018 and 2017 and the balance sheets of the consolidated Legacy Sequoia entities at June 30, 2018 and December 31, 2017. All amounts in the statements of income and balance sheets presented below are included in our consolidated financial statements.

Table 29 – Consolidated Legacy Sequoia Entities Statements of Income (Loss)

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands)	2018	2017	Change	2018	2017	Change
Interest income	$5,017	$4,863	$154	$9,829	$9,701	$128
Interest expense	(4,215)	(3,692)	(523)	(8,067)	(7,208)	(859)
Net interest income	802	1,171	(369)	1,762	2,493	(731)
Investment fair value changes, net	(720)	(987)	267	(728)	(2,797)	2,069
Net Income (Loss) from Consolidated Legacy Sequoia Entities	$82	$184	$(102)	$1,034	$(304)	$1,338

Table 30 – Consolidated Legacy Sequoia Entities Balance Sheets

(In Thousands)	June 30, 2018	December 31, 2017
Residential loans, held-for-investment, at fair value	$592,029	$632,817
Other assets	3,631	4,367
Total Assets	$595,660	$637,184
Other liabilities	$589	$537
Asset-backed securities issued, at fair value	582,235	622,445
Total liabilities	582,824	622,982
Equity (fair value of Redwood's retained investments in entities)	12,836	14,202
Total Liabilities and Equity	$595,660	$637,184

Net Interest Income at Consolidated Legacy Sequoia Entities

The decrease in net interest income for the three- and six-month periods was primarily attributable to the continued paydown of loans at the consolidated entities.

Investment Fair Value Changes, net at Consolidated Legacy Sequoia Entities

Investment fair value changes, net at consolidated Legacy Sequoia entities includes the change in fair value of the residential loans held-for-investment, REO, and the ABS issued at the entities, which netted together represent the change in value of our retained investments in the consolidated Legacy Sequoia entities. The decrease in negative investment fair value changes in the three- and six-month periods was primarily related to the decline in fair value changes on retained IO securities, as the basis of these assets continue to diminish.

Residential Loans at Consolidated Legacy Sequoia Entities

The following table provides details of residential loan activity at consolidated Legacy Sequoia entities for the three and six months ended June 30, 2018 and 2017.

Table 31 – Residential Loans at Consolidated Legacy Sequoia Entities — Activity

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Balance at beginning of period	$626,151	$745,621	$632,817	$791,636
Principal repayments	(37,869)	(47,896)	(72,091)	(101,357)
Transfers to REO	(567)	(1,076)	(1,835)	(2,044)
Changes in fair value, net	4,314	11,037	33,138	19,451
Balance at End of Period	$592,029	$707,686	$592,029	$707,686

First lien adjustable rate mortgage ("ARM") and hybrid loans comprise all of the loans in the consolidated Legacy Sequoia entities and were primarily originated in 2006 or prior. For outstanding loans at consolidated Legacy Sequoia entities at June 30, 2018, the weighted average FICO score of borrowers backing these loans was 728 (at origination) and the weighted average original LTV ratio was 66% (at origination). At June 30, 2018 and December 31, 2017, the unpaid principal balance of loans at consolidated Legacy Sequoia entities delinquent greater than 90 days was $18 million and $25 million, respectively, of which the unpaid principal balance of loans in foreclosure was $7 million and $10 million, respectively.

Taxable Income and Tax Provision

Taxable Income

The following table summarizes our taxable income and distributions to shareholders for the three and six months ended June 30, 2018 and 2017.

Table 32 – Taxable Income

(In Thousands, except per Share Data)	Three Months Ended June 30, 2018 est. (1)	2017 est. (1)	Six Months Ended June 30, 2018 est. (1)	2017 est. (1)
REIT taxable income	$26,794	$19,440	$60,268	$36,119
Taxable REIT subsidiary income	11,883	13,532	35,964	18,747
Total Taxable Income	$38,677	$32,972	$96,232	$54,866
REIT taxable income per share	$0.35	$0.25	$0.79	$0.47
Total taxable income per share	$0.51	$0.43	$1.27	$0.72
Distributions to shareholders	$22,721	$21,591	$43,916	$43,160
Distributions to shareholders per share	$0.30	$0.28	$0.58	$0.56

(1) Our tax results for the three and six months ended June 30, 2018 and 2017 are estimates until we file tax returns for these years.

Under normal circumstances, our minimum REIT dividend requirement would be 90% of our annual REIT taxable income. However, we currently maintain a $57 million federal net operating loss carry forward (NOL) at the REIT that affords us the option of retaining REIT taxable income up to the NOL amount, tax free, rather than distributing it as dividends. Federal income tax rules require the dividends paid deduction to be applied to reduce REIT taxable income before the applicability of NOLs is considered. It is possible that our estimated REIT taxable income will exceed our dividend distributions in 2018; therefore, we may utilize a portion of our NOL in 2018 and any remaining amount will carry forward into 2019.

We currently expect all or nearly all of the distributions to shareholders in 2018 will be taxable as dividend income and a smaller portion, if any, will be a return of capital, which is generally non-taxable. Additionally, a portion of our 2018 dividend distributions are expected to be characterized as long-term capital gains for federal income tax purposes.

Tax Provision under GAAP

For the three and six months ended June 30, 2018, we recorded tax provisions of $3 million and $7 million, respectively, compared to tax provisions of $5 million and $11 million for the three and six months ended June 30, 2017, respectively. Our tax provision is primarily derived from the activities at our TRS as we do not book a material tax provision associated with income generated at our REIT. The reduction in tax provision year-over-year was primarily the result of the lower federal corporate tax rate resulting from the Tax Act, even though the GAAP income earned at our TRS was slightly higher than the prior year period. Our TRS effective tax rate in 2018 is expected to be approximately equal to the federal corporate tax rate. The income or loss generated at our TRS will not directly affect the tax characterization of our 2018 dividends.

Realization of our DTAs is dependent on many factors, including generating sufficient taxable income prior to the expiration of NOL carryforwards and generating sufficient capital gains in future periods prior to the expiration of capital loss carryforwards. We determine the extent to which realization of our DTAs is not assured and establish a valuation allowance accordingly. At December 31, 2017, we reported net federal ordinary and capital deferred tax liabilities ("DTLs"), and, as such, had no associated valuation allowance. As a result of GAAP income at our TRS, we forecast that we will report net federal ordinary and capital DTLs at December 31, 2018 and consequently no valuation allowance is expected to be recorded against any federal DTA. Consistent with prior periods, we continued to maintain a valuation allowance against our net state DTAs. Our estimate of net deferred tax assets could change in future periods to the extent that actual or revised estimates of future taxable income during the carryforward periods change from current expectations.

Differences between Estimated Total Taxable Income and GAAP Income

Differences between estimated taxable income and GAAP income are largely due to the following: (i) we cannot establish loss reserves for future anticipated events for tax but we can for GAAP, as realized credit losses are expensed when incurred for tax and these losses are anticipated through lower yields on assets or through loss provisions for GAAP; (ii) the timing, and possibly the amount, of some expenses (e.g., certain compensation expenses) are different for tax than for GAAP; (iii) since amortization and impairments differ for tax and GAAP, the tax and GAAP gains and losses on sales may differ, resulting in differences in realized gains on sale; (iv) at the REIT and certain TRS entities, unrealized gains and losses on market valuation adjustments of securities and derivatives are not recognized for tax until the instrument is sold or extinguished; (v) for tax, basis may not be assigned to mortgage servicing rights retained when whole loans are sold resulting in lower tax gain on sale; (vi) for tax, we do not consolidate securitization entities as we do under GAAP; and, (vii) dividend distributions to our REIT from our TRS are included in REIT taxable income, but not GAAP income. As a result of these differences in accounting, our estimated taxable income can vary significantly from our GAAP income during certain reporting periods.

The table below reconciles our estimated total taxable income to our GAAP income for the six months ended June 30, 2018.

Table 33 – Differences between Estimated Total Taxable Income and GAAP Net Income

	Six Months Ended June 30, 2018				
(In Thousands, except per Share Data)	REIT (Est.)	TRS (Est.)	Total Tax (Est.)	GAAP	Differences
Interest income	$100,965	$23,920	$124,885	$159,595	$(34,710)
Interest expense	(42,063)	(20,193)	(62,256)	(89,727)	27,471
Net interest income	58,902	3,727	62,629	69,868	(7,239)
Realized credit losses	(966)	—	(966)	—	(966)
Mortgage banking activities, net	—	36,097	36,097	37,172	(1,075)
Investment fair value changes, net	229	(270)	(41)	2,498	(2,539)
Operating expenses	(22,283)	(16,091)	(38,374)	(42,039)	3,665
Other income, net	811	7,726	8,537	5,440	3,097
Realized gains, net	23,750	4,857	28,607	14,077	14,530
Provision for income taxes	(175)	(82)	(257)	(7,424)	7,167
Net Income	$60,268	$35,964	$96,232	$79,592	$16,640
Income per basic common share	$0.79	$0.48	$1.27	$1.02	$0.25

Potential Taxable Income Volatility

We expect period-to-period volatility in our estimated taxable income. A description of the factors that can cause this volatility is described in the Taxable Income portion of the Results of Operations section in the MD&A included in Part II, Item 7, of our Annual Report on Form 10-K.

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LIQUIDITY AND CAPITAL RESOURCES

Summary

Our principal sources of cash consist of borrowings under mortgage loan warehouse facilities, securities repurchase agreements, payments of principal and interest we receive from our investment portfolios, and cash generated from our operating activities. Our most significant uses of cash are to purchase mortgage loans for our mortgage banking operations, to fund investments in loans and investment securities, to repay principal and interest on our warehouse facilities, repurchase agreements, and long-term debt, to make dividend payments on our capital stock, and to fund our operations.

Our total capital was $2.00 billion at June 30, 2018, and included $1.23 billion of equity capital and $0.77 billion of the total $2.77 billion of long-term debt on our consolidated balance sheet. This portion of debt included $201 million of exchangeable debt due in 2019, $245 million of convertible debt due in 2023, $200 million of convertible debt due in 2024, and $140 million of trust-preferred securities due in 2037.

As of June 30, 2018, we estimate that our available capital was approximately $200 million. Additionally, in July of 2018, we issued $117 million of common equity, which will provide additional capital for us going forward.

In February 2016, our Board of Directors approved an authorization for the repurchase of up to $100 million of our common stock and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization replaced all previous share repurchase plans and has no expiration date. At December 31, 2017, approximately $77 million of this current authorization remained available for the repurchase of shares of our common stock. During January 2018, we repurchased 1,040,829 shares of our common stock pursuant to this authorization for $16 million.

In February 2018, our Board of Directors approved an authorization for the repurchase of an additional $39 million of our common stock, increasing the total amount authorized for repurchases of common stock to $100 million, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. As noted above, this authorization increased the previous share repurchase authorization approved in February 2016 and has no expiration date. This repurchase authorization does not obligate us to acquire any specific number of shares or securities. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. At June 30, 2018, $100 million of the current authorization remained available for the repurchase of shares of our common stock. Like other investments we may make, any repurchases of our common stock or debt securities under this authorization would reduce our available capital described above.

While we believe our available capital is sufficient to fund our currently contemplated investment activities and repay existing debt, we may raise capital from time-to-time to make long-term investments or for other purposes. To the extent we seek additional capital to fund our operations and investment activities, our approach to raising capital will continue to be based on what we believe to be in the best interests of shareholders.

We are subject to risks relating to our liquidity and capital resources, including risks relating to incurring debt under residential loan warehouse facilities, securities repurchase facilities, and other short- and long-term debt facilities and other risks relating to our use of derivatives. A further discussion of these risks is set forth below under the heading “Risks Relating to Debt Incurred under Short-and Long-Term Borrowing Facilities."

Cash Flows and Liquidity for the Six Months Ended June 30, 2018

Cash flows from our mortgage banking activities and our investments can be volatile from quarter to quarter depending on many factors, including the timing and amount of loan and securities acquisitions and sales and repayments, the profitability of mortgage banking activities, as well as changes in interest rates, prepayments, and credit losses. Therefore, cash flows generated in the current period are not necessarily reflective of the long-term cash flows we will receive from these investments or activities.

Cash Flows from Operating Activities

Cash flows from operating activities were negative $674 million during the six months ended June 30, 2018. This amount includes the net cash utilized during the period from the purchase and sale of residential mortgage loans associated with our mortgage banking activities. Purchases of loans are financed to a large extent with short-term debt, for which changes in cash are included as a component of financing activities. Excluding cash flows from the purchase, sale, and principal payments of loans classified as held-for-sale, cash flows from operating activities were positive $101 million and negative $10 million during the first six months of 2018 and 2017, respectively.

Cash Flows from Investing Activities

During the six months ended June 30, 2018, our net cash provided by investing activities was $364 million and primarily resulted from principal payments on loans held-for-investment at Redwood and at our consolidated Sequoia entities, and principal payments from, and proceeds from net sales of, real estate securities. Although we generally intend to hold our investment securities as long-term investments, we may sell certain of these securities in order to meet our operating objectives, and to adapt to market conditions. We cannot predict the timing and impact of future sales of investment securities.

Because many of our investment securities are financed through repurchase agreements, a significant portion of the proceeds from any sales or principal payments of our investment securities could be used to repay balances under these financing sources. Similarly, all or a significant portion of cash flows from principal payments of loans at consolidated Sequoia entities would generally be used to repay ABS issued by those entities.

During the six months ended June 30, 2018, we deployed $50 million into new initiatives, including $40 million in customized financing for our jumbo loan sellers and $10 million to acquire a minority interest in business-purpose mortgage lender 5 Arches, LLC.

As presented in the "Supplemental Noncash Information" subsection of our consolidated statements of cash flows, during the six months ended June 30, 2018, we had transfers of residential loans from held-for-sale to held-for-investment classification, and also retained securities from Sequoia securitizations we sponsored, which represent non-cash transactions that were not included in cash flows from investing activities.

Cash Flows from Financing Activities

During the six months ended June 30, 2018, our net cash provided by financing activities was $364 million. This primarily resulted from proceeds of $926 million from the issuance of asset-backed securities from our Sequoia Choice securitizations and proceeds of $199 million from the issuance of convertible debt in June 2018. These cash inflows were partially offset by $513 million of net repayments of short-term debt, including the repayment of our $250 million of convertible notes that matured in April, and $182 million of repayments of ABS issued.

In December 2017, our Board of Directors announced its intention to pay a regular dividend of $0.28 per share per quarter in 2018. In May 2018, the Board of Directors declared an increase in the regular dividend to $0.30 per share for the second quarter of 2018. During the six months ended June 30, 2018, we paid $45 million of cash dividends on our common stock, representing cumulative dividends of $0.58 per share. Additionally, in August 2018, the Board of Directors declared a regular dividend of $0.30 per share for the third quarter of 2018, which is payable on September 28, 2018 to shareholders of record on September 14, 2018.

In accordance with the terms of our outstanding deferred stock units, which are stock-based compensation awards, each time we declare and pay a dividend on our common stock, we are required to make a dividend equivalent payment in that same per share amount on each outstanding deferred stock unit.

Short-Term Debt

In the ordinary course of our business, we use recourse debt through several different types of borrowing facilities and use cash borrowings under these facilities to, among other things, fund the acquisition of residential loans (including those we acquire and originate in anticipation of securitization), finance investments in securities and other investments, and otherwise fund our business and operations.

At June 30, 2018, we had four short-term residential loan warehouse facilities with a total outstanding debt balance of $719 million (secured by residential loans with an aggregate fair value of $786 million) and a total uncommitted borrowing limit of $1.43 billion. In addition, at June 30, 2018, we had an aggregate outstanding short-term debt balance of $707 million under seven securities repurchase facilities, which were secured by securities with a fair market value of $846 million. At June 30, 2018, the fair value of our real estate securities pledged as collateral included $88 million of securities retained from our consolidated Sequoia Choice securitizations. We also had a secured line of credit with no outstanding debt balance and a total borrowing limit of $10 million (secured by securities with a fair market value of $4 million) at June 30, 2018.

During the second quarter of 2017, $288 million principal amount of our convertible notes due in 2018 and $2 million of associated unamortized deferred issuance costs were reclassified from long-term debt to short-term debt, as the maturity of the notes was less than one year as of April 2017. Additionally, during the second quarter of 2017, we repurchased $37 million par value of these notes at a premium and recorded a loss on extinguishment of debt of $1 million in Realized gains, net on our consolidated statements of income. In April 2018, we repaid these $250 million convertible notes and all related accrued interest in full.

At June 30, 2018, we had $1.43 billion of short-term debt outstanding. During the first six months of 2018, the highest balance of our short-term debt outstanding was $2.26 billion.

Long-Term Debt

FHLBC Borrowings

In July 2014, our FHLB-member subsidiary entered into a borrowing agreement with the Federal Home Loan Bank of Chicago. At June 30, 2018, under this agreement, our subsidiary could incur borrowings up to $2.00 billion, also referred to as “advances,” from the FHLBC secured by eligible collateral, including, but not limited to residential mortgage loans. During the six months ended June 30, 2018, our FHLB-member subsidiary made no additional borrowings under this agreement. Under a final rule published by the Federal Housing Finance Agency in January 2016, our FHLB-member subsidiary will remain an FHLB member through a five-year transition period for captive insurance companies. Our FHLB-member subsidiary's existing $2.00 billion of FHLB debt, which matures beyond this transition period, is permitted to remain outstanding until stated maturity. As residential loans pledged as collateral for this debt pay down, we are permitted to pledge additional loans or other eligible assets to collateralize this debt; however, we do not expect to be able to increase our subsidiary's FHLB debt above the existing $2.00 billion maximum.

At June 30, 2018, $2.00 billion of advances were outstanding under this agreement, which were classified as long-term debt, with a weighted average interest rate of 2.03% per annum and a weighted average maturity of seven years. At June 30, 2018, accrued interest payable on these borrowings was $6 million. Advances under this agreement are charged interest based on a specified margin over the FHLBC’s 13-week discount note rate, which resets every 13 weeks. Our total advances under this agreement were secured by residential mortgage loans with a fair value of $2.31 billion at June 30, 2018. This agreement also requires our subsidiary to purchase and hold stock in the FHLBC in an amount equal to a specified percentage of outstanding advances. At June 30, 2018, our subsidiary held $43 million of FHLBC stock that is included in Other assets on our consolidated balance sheets.

Convertible Notes

In June 2018, we issued $200 million principal amount of 5.625% convertible senior notes due 2024 at an issuance price of 99.5%. After deducting the issuance discount, the underwriting discount and issuance costs, we received approximately $194 million of net proceeds. Including amortization of deferred debt issuance costs, the weighted average interest expense yield on these convertible notes is approximately 6.2% per annum. At June 30, 2018, the outstanding principal amount of these notes was $200 million. At June 30, 2018, the accrued interest payable balance on this debt was $0.2 million.

In August 2017, we issued $245 million principal amount of 4.75% convertible senior notes due 2023. After deducting the underwriting discount and issuance costs, we received approximately $238 million of net proceeds. Including amortization of deferred debt issuance costs, the weighted average interest expense yield on these convertible notes is approximately 5.3% per annum. At June 30, 2018, the outstanding principal amount of these notes was $245 million. At June 30, 2018, the accrued interest payable balance on this debt was $4 million.

In November 2014, one of our taxable subsidiaries issued $205 million principal amount of 5.625% exchangeable senior notes due 2019. After deducting the underwriting discount and issuance costs, we received approximately $198 million of net proceeds. Including amortization of deferred debt issuance costs, the weighted average interest expense yield on these exchangeable notes is approximately 6.3% per annum. During the first quarter of 2016, we repurchased $4 million par value of these notes at a discount and recorded a gain on extinguishment of debt of $0.3 million in Realized gains, net on our consolidated statements of income. At June 30, 2018, the outstanding principal amount of these notes was $201 million. At June 30, 2018, the accrued interest payable balance on this debt was $1 million.

In March 2013, we issued $288 million principal amount of 4.625% convertible senior notes due 2018. After deducting the underwriting discount and issuance costs, we received approximately $279 million of net proceeds. Including amortization of deferred debt issuance costs, the weighted average interest expense yield on these convertible notes was approximately 4.8% per annum. During the second quarter of 2017, $288 million principal amount of these convertible notes and $2 million of unamortized deferred issuance costs were reclassified from long-term debt to short-term debt, as the maturity of the notes was less than one year as of April 2017. Additionally, during the second quarter of 2017, we repurchased $37 million par value of these notes at a premium and recorded a loss on extinguishment of debt of $1 million in Realized gains, net on our consolidated statements of income. In April 2018, we repaid these $250 million convertible notes and all related accrued interest in full.

Trust Preferred Securities and Subordinated Notes

At June 30, 2018, we had trust preferred securities and subordinated notes outstanding of $100 million and $40 million, respectively, issued by us in 2006 and 2007. This debt requires quarterly interest payments at a floating rate equal to three-month LIBOR plus 2.25% and must be redeemed no later than 2037. Prior to 2014, we entered into interest rate swaps with aggregate notional values totaling $140 million to hedge the variability in this long-term debt interest expense. Including hedging costs and amortization of deferred debt issuance costs, the weighted average interest expense yield on our trust preferred securities and subordinated notes is approximately 6.8% per annum. These swaps are accounted for as cash flow hedges with all interest recorded as a component of net interest income and other valuation changes recorded as a component of equity.

Single-Family Rental Loan Warehouse Facilities

During the second quarter of 2018, we entered into repurchase facilities with two third-party financial institutions to finance the purchase of single-family rental loans. The first facility has an aggregate maximum borrowing capacity of $200 million and is scheduled to mature on June 29, 2020. The second facility has an aggregate maximum borrowing capacity of $200 million and is scheduled to mature on June 29, 2021. Borrowings under these facilities are generally charged interest based on a specified margin over the one-month LIBOR interest rate. At June 30, 2018, there were no amounts outstanding under either of these facilities.

Asset-Backed Securities

At June 30, 2018, there were $623 million (principal balance) of loans owned at consolidated Legacy Sequoia securitization entities, which were funded with $616 million (principal balance) of ABS issued at these entities. In addition, at June 30, 2018, there were $1.46 billion (principal balance) of loans owned at the consolidated Sequoia Choice securitization entities, which were funded with $1.32 billion (principal balance) of ABS issued at these entities. The loans and ABS issued from these entities are reported at estimated fair value. See the subsections titled "Residential Loans Held-for-Investment at Sequoia Choice Portfolio" and "Results of Consolidated Legacy Sequoia Entities" in the Results of Operations section of this MD&A for additional details on these entities.

Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities

As described above under the heading “Results of Operations,” in the ordinary course of our business, we use debt financing obtained through several different types of borrowing facilities to, among other things, finance the acquisition of mortgage loans (including those we acquire in anticipation of sale or securitization), and finance investments in loans, securities, and other investments. We may also use short- and long-term borrowings to fund other aspects of our business and operations, including the repurchase of shares of our common stock. Debt incurred under these facilities is generally either the direct obligation of Redwood Trust, Inc., or the direct obligation of subsidiaries of Redwood Trust, Inc. and guaranteed by Redwood Trust, Inc. Risks relating to debt incurred under these facilities are described in Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2017, under the caption “Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities.”

Our sources of debt financing include short-term secured borrowings under mortgage loan warehouse facilities, short-term securities repurchase facilities, a $10 million committed line of short-term secured credit from a bank, and secured borrowings by our wholly-owned subsidiary, RWT Financial, LLC, under its borrowing facility with the FHLBC.

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Aggregate borrowing limits are stated under certain of these facilities, and certain other facilities have no stated borrowing limit, but each of the facilities (with the exception of the $10 million committed line of short-term secured credit) is uncommitted, which means that any request we make to borrow funds under these uncommitted facilities may be declined for any reason, even if at the time of the borrowing request we have then-outstanding borrowings that are less than the borrowing limits under these facilities. In general, financing under these facilities is obtained by transferring or pledging mortgage loans or securities to the counterparty in exchange for cash proceeds (in an amount less than 100% of the principal amount of the transferred or pledged assets). While transferred or pledged assets are financed under a facility, to the extent the market value of the assets declines, we are generally required to either immediately reacquire the assets or meet a margin requirement to transfer or pledge additional assets or cash in an amount at least equal to the decline in value. Margin call provisions under these facilities are further described in Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2017 under the caption "Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities - Margin Call Provisions Associated with Short-Term Debt and Other Debt Financing." Financial covenants included in these facilities are further described Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2017 under the caption "Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities - Financial Covenants Associated with Short-Term Debt and Other Debt Financing." Financial covenants included in these facilities are further described Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2017 under the caption "Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities - Financial Covenants Associated with Short-Term Debt and Other Debt Financing."

Because these warehouse facilities are uncommitted, at any given time we may not be able to obtain additional financing under them when we need it, exposing us to, among other things, liquidity risks of the types described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 under the heading "Risk Factors," and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017 under the heading "Market Risks." In addition, with respect to mortgage loans that at any given time are already being financed through these warehouse facilities, we are exposed to market, credit, liquidity, and other risks of the types described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 under the heading "Risk Factors," and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017 under the heading "Market Risks," if and when those loans or securities become ineligible to be financed, decline in value, or have been financed for the maximum term permitted under the applicable facility. Additionally, our access to financing under the borrowing facility with the FHLBC is subject to the risks described under the heading "Risk Factors - Recently adopted Federal regulations may limit, eliminate, or reduce the attractiveness of our subsidiary's ability to use borrowings from the Federal Home Loan Bank of Chicago to finance the mortgage loans and securities it holds and acquires, which could negatively impact our business and operating results" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

At June 30, 2018, and through the date of this Quarterly Report on Form 10-Q, we were in compliance with the financial covenants associated with our short-term debt and other debt financing facilities. In particular, with respect to: (i) financial covenants that require us to maintain a minimum dollar amount of stockholders' equity or tangible net worth, at June 30, 2018 our level of stockholders' equity and tangible net worth resulted in our being in compliance with these covenants by more than $200 million; and (ii) financial covenants that require us to maintain recourse indebtedness below a specified ratio, at June 30, 2018 our level of recourse indebtedness resulted in our being in compliance with these covenants at a level such that we could incur at least $600 million in additional recourse indebtedness.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

In the ordinary course of business, we enter into transactions that may require future cash payments. As required by GAAP, some of these obligations are recorded on the balance sheet, while others are off-balance sheet or recorded on the balance sheet in amounts different from the full contract or notional amount of the transaction.

For additional information on our contractual obligations, see the Off-Balance Sheet Arrangements and Contractual Obligations section in the MD&A included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017.

For additional information on our commitments and contingencies as of June 30, 2018, see Note 13 of our Notes to Consolidated Financial Statements in Part I, Item I of this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. A discussion of critical accounting policies and the possible effects of changes in estimates on our consolidated financial statements is included in Note 3 — Summary of Significant Accounting Policies included in Part I, Item 1 of this Quarterly Report on Form 10-Q and in Part I, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2017. Management discusses the ongoing development and selection of these critical accounting policies with the audit committee of the board of directors.

We expect quarter-to-quarter GAAP earnings volatility from our business activities. This volatility can occur for a variety of reasons, including the timing and amount of purchases, sales, calls, and repayment of consolidated assets, changes in the fair values of consolidated assets and liabilities, increases or decreases in earnings from mortgage banking activities, and certain non-recurring events. In addition, the amount or timing of our reported earnings may be impacted by technical accounting issues and estimates. Our critical accounting policies and the possible effects of changes in estimates on our consolidated financial statements are included in the "Critical Accounting Policies and Estimates" section of Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017.

Market Risks

We seek to manage risks inherent in our business — including but not limited to credit risk, interest rate risk, prepayment risk, liquidity risk, and fair value risk — in a prudent manner designed to enhance our earnings and dividends and preserve our capital. In general, we seek to assume risks that can be quantified from historical experience, to actively manage such risks, and to maintain capital levels consistent with these risks. Information concerning the risks we are managing, how these risks are changing over time, and potential GAAP earnings and taxable income volatility we may experience as a result of these risks is discussed in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Other Risks

In addition to the market and other risks described above, our business and results of operations are subject to a variety of types of risks and uncertainties, including, among other things, those described under the caption “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

NEW ACCOUNTING STANDARDS

A discussion of new accounting standards and the possible effects of these standards on our consolidated financial statements is included in Note 3 — Summary of Significant Accounting Policies included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information concerning market risk is incorporated herein by reference to Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as supplemented by the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Market Risks” within Item 2 above. Other than the developments described thereunder, including changes in the fair values of our assets, there have been no other material changes in our quantitative or qualitative exposure to market risk since December 31, 2017.

Item 4. Controls and Procedures

We have adopted and maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed on our reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms and that the information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of the Exchange Act, we have carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

There have been no changes in our internal control over financial reporting during the second quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On or about December 23, 2009, the Federal Home Loan Bank of Seattle (the "FHLB-Seattle") filed a complaint in the Superior Court for the State of Washington (case number 09-2-46348-4 SEA) against Redwood Trust, Inc., our subsidiary, Sequoia Residential Funding, Inc. ("SRF"), Morgan Stanley & Co., and Morgan Stanley Capital I, Inc. (collectively, the "FHLB-Seattle Defendants"), which alleged that the FHLB-Seattle Defendants made false or misleading statements in offering materials for a mortgage pass-through certificate (the "Seattle Certificate") issued in the Sequoia Mortgage Trust 2005-4 securitization transaction (the "2005-4 RMBS") and purchased by the FHLB-Seattle. Specifically, the complaint alleged that the alleged misstatements concerned the (1) loan-to-value ratio of mortgage loans and the appraisals of the properties that secured loans supporting the 2005-4 RMBS, (2) occupancy status of the properties, (3) standards used to underwrite the loans, and (4) ratings assigned to the Seattle Certificate. The FHLB-Seattle alleged claims under the Securities Act of Washington (Section 21.20.005, et seq.) and sought to rescind the purchase of the Seattle Certificate and to collect interest on the original purchase price at the statutory interest rate of 8% per annum from the date of original purchase (net of interest received) as well as attorneys' fees and costs. The Seattle Certificate was issued with an original principal amount of approximately $133 million, and, at June 30, 2018, approximately $126 million of principal and $11 million of interest payments had been made in respect of the Seattle Certificate. As of June 30, 2018, the Seattle Certificate had a remaining outstanding principal amount of approximately $8 million. The matter was subsequently resolved and the claims were dismissed by the FHLB Seattle as to all the FHLB Seattle Defendants. At the time the Seattle Certificate was issued, Redwood agreed to indemnify the underwriters of the 2005-4 RMBS, which underwriters were named as defendants in the action, for certain losses and expenses they might incur as a result of claims made against them relating to this RMBS, including, without limitation, certain legal expenses. Regardless of the resolution of this litigation, we could incur a loss as a result of these indemnities.

On or about July 15, 2010, The Charles Schwab Corporation ("Schwab") filed a complaint in the Superior Court for the State of California in San Francisco (case number CGC-10-501610) against SRF and 26 other defendants (collectively, the "Schwab Defendants"), which alleged that the Schwab Defendants made false or misleading statements in offering materials for various residential mortgage-backed securities sold or issued by the Schwab Defendants. Schwab alleged only a claim for negligent misrepresentation under California state law against SRF and sought unspecified damages and attorneys' fees and costs from SRF. Schwab claimed that SRF made false or misleading statements in offering materials for a mortgage pass-through certificate (the "Schwab Certificate") issued in the 2005-4 RMBS and purchased by Schwab. Specifically, the complaint alleged that the misstatements for the 2005-4 RMBS concerned the (1) loan-to-value ratio of mortgage loans and the appraisals of the properties that secured loans supporting the 2005-4 RMBS, (2) occupancy status of the properties, (3) standards used to underwrite the loans, and (4) ratings assigned to the Schwab Certificate. The Schwab Certificate was issued with an original principal amount of approximately $15 million, and, at June 30, 2018, approximately $14 million of principal and $1 million of interest payments had been made in respect of the Schwab Certificate. As of June 30, 2018, the Schwab Certificate had a remaining outstanding principal amount of approximately $1 million. On November 14, 2014, Schwab voluntarily dismissed with prejudice its negligent misrepresentation claim, which resulted in the dismissal with prejudice of SRF from the action. Subsequently, the matter was resolved and Schwab dismissed its claims against the lead underwriter of the 2005-4 RMBS. At the time the Schwab Certificate was issued, Redwood agreed to indemnify the underwriters of the 2005-4 RMBS, which underwriters were also named as defendants in the action, for certain losses and expenses they might incur as a result of claims made against them relating to this RMBS, including, without limitation, certain legal expenses. Regardless of the resolution of this litigation, Redwood could incur a loss as a result of these indemnities.

Through certain of our wholly-owned subsidiaries, we have in the past engaged in, and expect to continue to engage in, activities relating to the acquisition and securitization of residential mortgage loans. In addition, certain of our wholly-owned subsidiaries have in the past engaged in activities relating to the acquisition and securitization of debt obligations and other assets through the issuance of collateralized debt obligations (commonly referred to as CDO transactions). Because of this involvement in the securitization and CDO businesses, we could become the subject of litigation relating to these businesses, including additional litigation of the type described above, and we could also become the subject of governmental investigations, enforcement actions, or lawsuits, and governmental authorities could allege that we violated applicable law or regulation in the conduct of our business. As an example, in July 2016 we became aware of a complaint filed by the State of California on April 1, 2016 against Morgan Stanley & Co. and certain of its affiliates alleging, among other things, that there were misleading statements contained in offering materials for 28 different mortgage pass-through certificates purchased by various California investors, including various California public pension systems, from Morgan Stanley and alleging that Morgan Stanley made false or fraudulent claims in connection with the sale of those certificates. Of the 28 mortgage pass-through certificates that were the subject of the complaint, two were Sequoia mortgage pass-through certificates issued in 2004 and two were Sequoia mortgage pass-through certificates issued in 2007. With respect to each of those certificates, our wholly-owned subsidiary, RWT Holdings, Inc., was the sponsor and our wholly-owned subsidiary, Sequoia Residential Funding, Inc., was the depositor. The plaintiffs subsequently withdrew from the litigation their claims based on eight of the 28 mortgage pass-through certificates, including one of the Sequoia mortgage pass-through certificates issued in 2004. At the time these Sequoia mortgage pass-through certificates were issued, Sequoia Residential Funding, Inc. and Redwood Trust agreed to indemnify the underwriters of these certificates for certain losses and expenses they might incur as a result of claims made against them relating to these certificates, including, without limitation, certain legal expenses. Regardless of the outcome of this litigation, we could incur a loss as a result of these indemnities.

In accordance with GAAP, we review the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in a liability and the amount of loss, if any, can be reasonably estimated. Additionally, we record receivables for insurance recoveries relating to litigation-related losses and expenses if and when such amounts are covered by insurance and recovery of such losses or expenses are due. At June 30, 2018, the aggregate amount of loss contingency reserves established in respect of the FHLB-Seattle and Schwab litigation matters described above was $2 million. We review our litigation matters each quarter to assess these loss contingency reserves and make adjustments in these reserves, upwards or downwards, as appropriate, in accordance with GAAP based on our review.

In the ordinary course of any litigation matter, including certain of the above-referenced matters, we have engaged and may continue to engage in formal or informal settlement communications with the plaintiffs or co-defendants. Settlement communications we have engaged in relating to certain of the above-referenced litigation matters are one of the factors that have resulted in our determination to establish the loss contingency reserves described above. We cannot be certain that any of these matters will be resolved through a settlement prior to trial and we cannot be certain that the resolution of these matters, whether through trial or settlement, will not have a material adverse effect on our financial condition or results of operations in any future period.

Future developments (including resolution of substantive pre-trial motions relating to these matters, receipt of additional information and documents relating to these matters (such as through pre-trial discovery), new or additional settlement communications with plaintiffs relating to these matters, or resolutions of similar claims against other defendants in these matters) could result in our concluding in the future to establish additional loss contingency reserves or to disclose an estimate of reasonably possible losses in excess of our established reserves with respect to these matters. Our actual losses with respect to the above-referenced litigation matters may be materially higher than the aggregate amount of loss contingency reserves we have established in respect of these litigation matters, including in the event that any of these matters proceeds to trial and the plaintiff prevails. Other factors that could result in our concluding to establish additional loss contingency reserves or estimate additional reasonably possible losses, or could result in our actual losses with respect to the above-referenced litigation matters being materially higher than the aggregate amount of loss contingency reserves we have established in respect of these litigation matters include that: there are significant factual and legal issues to be resolved; information obtained or rulings made during the lawsuits could affect the methodology for calculation of the available remedies; and we may have additional obligations pursuant to indemnity agreements, representations and warranties, and other contractual provisions with other parties relating to these litigation matters that could increase our potential losses.

Item 1A. Risk Factors

Our risk factors are discussed under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

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

During the three months ended June 30, 2018, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

In February 2016, our Board of Directors approved an authorization for the repurchase of up to $100 million of our common stock and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization replaced all previous share repurchase plans and has no expiration date. At December 31, 2017, approximately $77 million of this current authorization remained available for the repurchase of shares of our common stock. During January 2018, we repurchased 1,040,829 shares of our common stock pursuant to this authorization for $16 million.

In February 2018, our Board of Directors approved an authorization for the repurchase of an additional $39 million of our common stock, increasing the total amount authorized for repurchases of common stock to $100 million, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. As noted above, this authorization increased the previous share repurchase authorization approved in February 2016 and has no expiration date. This repurchase authorization does not obligate us to acquire any specific number of shares or securities. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. At June 30, 2018, $100 million of this current authorization remained available for the repurchase of shares of our common stock.

The following table contains information on the shares of our common stock that we purchased or otherwise acquired during the three months ended June 30, 2018.

(In Thousands, except per Share Data)	Total Number of Shares Purchased or Acquired	Average Price per Share Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased under the Plans or Programs
April 1, 2018 - April 30, 2018	—	$	——	$ —
May 1, 2018 - May 31, 2018	—	$	——	$ —
June 1, 2018 - June 30, 2018	—	$	——	$ 100,000
Total	—	$	——	$ 100,000

Item 3. Defaults Upon Senior Securities

None.

Item 4. Not Applicable

Item 5. Other Information

On August 2, 2018, Lola Bondar was appointed principal accounting officer of Redwood Trust, Inc. Ms. Bondar, age 40, commenced employment with Redwood Trust, Inc. in January 2018 as Managing Director and Corporate Controller. Prior to joining Redwood, Ms. Bondar spent eleven years at Wells Fargo Bank, where she most recently served as Vice President and Group Controller for Wells Fargo's Commercial Real Estate and Community Lending and Investments businesses in San Francisco. Ms. Bondar also held several finance, accounting, and audit leadership roles at Wells Fargo Wholesale division with an emphasis on commercial lending and derivative instruments. Ms. Bondar's previous experience also includes employment at OpenTable, Inc. as Senior Risk Manager, as well as Auditor positions at KPMG LLP and Arthur Andersen LLP. Ms. Bondar is a CPA (inactive) and has a B.S. Accounting and Audit degree from the Finance Academy under the Government of the Russian Federation, Moscow, Russia. In connection with commencing her employment, Ms. Bondar and Redwood Trust, Inc. agreed to the following compensation and employment terms: an annual base salary for 2018 of $260,000; a sign-on cash award of $70,000; and an award of deferred stock units (made pursuant to the 2014 Incentive Plan and granted upon the commencement of employment) with an equivalent market value of $125,000, which award will vest over a four-year period. Ms. Bondar will be eligible to receive a 2018 year-end cash incentive award and an equity award of deferred stock units, with any such awards to be at the discretion of the Board of Directors of Redwood Trust, Inc.

Item 6. Exhibits

Exhibit Number	Exhibit
3.1	Articles of Amendment and Restatement of the Registrant, effective July 6, 1994 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1, filed on August 6, 2008)
3.1.1	Articles Supplementary of the Registrant, effective August 10, 1994 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.1, filed on August 6, 2008)
3.1.2	Articles Supplementary of the Registrant, effective August 11, 1995 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.2, filed on August 6, 2008)
3.1.3	Articles Supplementary of the Registrant, effective August 9, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.3, filed on August 6, 2008)
3.1.4	Certificate of Amendment of the Registrant, effective June 30, 1998 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.4, filed on August 6, 2008)
3.1.5	Articles Supplementary of the Registrant, effective April 7, 2003 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.5, filed on August 6, 2008)
3.1.6	Articles of Amendment of the Registrant, effective June 12, 2008 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.6, filed on August 6, 2008)
3.1.7	Articles of Amendment of the Registrant, effective May 19, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2009)
3.1.8	Articles of Amendment of the Registrant, effective May 24, 2011 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 20, 2011)
3.1.9	Articles of Amendment of the Registrant, effective May 18, 2012 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2012)
3.1.10	Articles of Amendment of the Registrant, effective May 16, 2013 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2013)
3.2.1	Amended and Restated Bylaws of the Registrant, as adopted on March 5, 2008
3.2.2	First Amendment to Amended and Restated Bylaws of the Registrant, as adopted on May 17, 2012
3.2.3	Second Amendment to Amended and Restated Bylaws of the Registrant, as adopted on May 22, 2018
4.1	Third Supplemental Indenture, dated June 25, 2018, between Redwood Trust, Inc. and Wilmington Trust, National Association, as Trustee (including the form of 5.625% Convertible Senior Note due 2024) (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.2, filed on June 25, 2018)
10.1*	Redwood Trust, Inc. Amended and Restated 2014 Incentive Award Plan (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.1, filed on May 23, 2018)
10.2*	Amended and Restated Employment Agreement, by and between Martin S. Hughes and the Company, dated as of May 22, 2018 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.2, filed on May 23, 2018)
10.3*	Second Amended and Restated Employment Agreement, by and between Christopher J. Abate and the Company, dated as of May 22, 2018
10.4*	First Amendment to Employment Agreement, by and between Dashiell I. Robinson and the Company, dated as of May 22, 2018
10.5*	Second Amended and Restated Employment Agreement, by and between Andrew P. Stone and the Company, dated as of May 22, 2018
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018, is filed in XBRL-formatted interactive data files:

(i) Consolidated Balance Sheets at June 30, 2018 and December 31, 2017;
(ii) Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017;
(iii) Statements of Consolidated Comprehensive Income for the three and six months ended June 30, 2018 and 2017;
(iv) Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2018 and 2017;
(v) Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017; and
(vi) Notes to Consolidated Financial Statements.

* Indicates exhibits that include management contracts or compensatory plan or arrangements.

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.

			REDWOOD TRUST, INC.
Date:	August 8, 2018	By:	/s/ Christopher J. Abate
			Christopher J. Abate
			Chief Executive Officer
			(Principal Executive Officer)
Date:	August 8, 2018	By:	/s/ Collin L. Cochrane
			Collin L. Cochrane
			Chief Financial Officer
			(Principal Financial Officer)
Date:	August 8, 2018	By:	/s/ Lola Bondar
			Lola Bondar
			Controller
			(Principal Accounting Officer)

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