

Genie Energy Ltd.  
Form 10-Q/A  
November 16, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q/A**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017**

**or**

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

**Commission File Number: 1-35327**

**GENIE ENERGY LTD.**

**(Exact Name of Registrant as Specified in its Charter)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>45-2069276</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification Number)</b>

<b>520 Broad Street, Newark, New Jersey</b> <b>(Address of principal executive offices)</b>	<b>07102</b> <b>(Zip Code)</b>
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**(973) 438-3500**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes    No

As of August 3, 2017, the registrant had the following shares outstanding:

Class A common stock, \$.01 par value: 1,574,326 shares outstanding

Class B common stock, \$.01 par value: 23,101,681 shares outstanding (excluding 204,920 treasury shares)

## EXPLANATORY NOTE

Genie Energy Ltd. (the “Company”) is filing this Amendment No. 1 on Form 10-Q/A (“Amendment No. 1”) in order to correct its revenues, cost of revenues, income from operations, net income and earnings per share, and revise the Company’s disclosure in Item 4 of Part I, Controls and Procedures. In addition, the Company is revising Note 11 of Notes to Consolidated Financial Statements (Unaudited) to include additional disclosure about the pending class action lawsuits in Pennsylvania, New York and New Jersey.

### **Restatement of Consolidated Financial Statements**

The unaudited consolidated statement of operations for the three months ended June 30, 2017 has been restated to properly reflect the Company’s revenues, cost of revenues, income from operations, net income and earnings per share for that three-month period. Certain amounts recorded in the second quarter of 2017 should properly have been recorded in the first quarter. The unaudited consolidated statement of comprehensive loss for the three months ended June 30, 2017, and the notes to consolidated financial statements, were restated to make the associated changes required by the adjustments to the unaudited consolidated statement of operations.

For a discussion of the accounting errors identified, see Note 2 of Notes to Consolidated Financial Statements (Unaudited) included in Part I, Item 1—Financial Statements.

### **Management’s Discussion and Analysis of Financial Condition and Results of Operations**

Changes necessitated by the restatement of the Company’s unaudited consolidated financial statements for the three months ended June 30, 2017 have been made in Part I, Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations. In addition, Part I, Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations has been revised to include additional disclosure about the pending class action lawsuits in Pennsylvania, New York and New Jersey.

### **Disclosure Controls and Procedures and Internal Control Over Financial Reporting**

Management reassessed its evaluation of the effectiveness of disclosure controls and procedures and our internal control over financial reporting as of June 30, 2017, and concluded that an additional deficiency in the design and operating effectiveness of the Company's internal controls represents a material weakness in the Company's internal control over financial reporting and, therefore, that the Company did not maintain effective disclosure controls and procedures or internal control over financial reporting as of June 30, 2017. For a description of the additional material weakness identified by management and management's plan to remediate the material weakness, see Part I, Item 4 — Controls and Procedures.

## **Amended Reports**

The Company is concurrently filing an Amended Quarterly Report on Form 10-Q/A for the fiscal quarter ended March 31, 2017, that reflects the effects of the restatement in this Amended Quarterly Report on Form 10-Q/A.

Except as set forth above, no other material changes have been made from the originally filed Quarterly Report on Form 10-Q for the three months ended June 30, 2017 and, except as set forth above, this Amendment No. 1 speaks as of the date of the original filing of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, and does not reflect events that may have occurred subsequent to the date of the original filing on Form 10-Q.

This Amended Quarterly Report on Form 10-Q/A reflects amendments to the following items:

Part I, Item 1 — Financial Statements

Part I, Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 3 — Quantitative and Qualitative Disclosures About Market Risks

Part I, Item 4 — Controls and Procedures

Part II, Item 6 — Exhibits

The Company's Chief Executive Officer and Chief Financial Officer are providing currently dated certifications in connection with this Amended Quarterly Report on Form 10-Q/A. See Exhibits 31.1, 31.2, 32.1 and 32.2.

**GENIE ENERGY LTD.**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****GENIE ENERGY LTD.****CONSOLIDATED BALANCE SHEETS**

	June 30, 2017 (Unaudited)	December 31, 2016 (Note 1)
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$33,430	\$ 35,192
Restricted cash—short-term	277	10,813
Trade accounts receivable, net of allowance for doubtful accounts of \$456 and \$171 at June 30, 2017 and December 31, 2016, respectively	37,507	36,858
Inventory	4,719	5,989
Prepaid expenses	6,443	4,026
Other current assets	5,812	4,932
Total current assets	88,188	97,810
Property and equipment, net	4,132	1,617
Capitalized exploration costs—unproved oil and gas property	3,436	—
Goodwill	8,728	8,728
Other intangibles, net	3,653	4,277
Restricted cash—long-term	1,489	1,047
Deferred income tax assets, net	2,324	1,781
Other assets	9,235	6,553
Total assets	\$121,185	\$ 121,813
Liabilities and equity		
Current liabilities:		
Revolving line of credit	\$—	\$ 711
Trade accounts payable	15,175	17,274
Accrued expenses	26,555	16,301
Income taxes payable	685	2,426
Due to IDT Corporation	201	141
Other current liabilities	5,969	4,292
Total current liabilities	48,585	41,145
Revolving line of credit	2,506	—
Other liabilities	1,237	803

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Total liabilities	52,328	41,948
Commitments and contingencies		
Equity:		
Genie Energy Ltd. stockholders' equity:		
Preferred stock, \$.01 par value; authorized shares—10,000:		
Series 2012-A, designated shares—8,750; at liquidation preference, consisting of 2,322 shares issued and outstanding at June 30, 2017 and December 31, 2016	19,743	19,743
Class A common stock, \$.01 par value; authorized shares—35,000; 1,574 shares issued and outstanding at June 30, 2017 and December 31, 2016	16	16
Class B common stock, \$.01 par value; authorized shares—200,000; 23,307 and 23,274 shares issued and 23,102 and 23,073 shares outstanding at June 30, 2017 and December 31, 2016, respectively	233	233
Additional paid-in capital	129,249	128,243
Treasury stock, at cost, consisting of 205 shares and 201 shares of Class B common stock at June 30, 2017 and December 31, 2016, respectively	(1,622 )	(1,599 )
Accumulated other comprehensive income	2,784	1,465
Accumulated deficit	(63,993 )	(51,567 )
Total Genie Energy Ltd. stockholders' equity	86,410	96,534
Noncontrolling interests:		
Noncontrolling interests	(15,886 )	(15,002 )
Receivable for issuance of equity	(1,667 )	(1,667 )
Total noncontrolling interests	(17,553 )	(16,669 )
Total equity	68,857	79,865
Total liabilities and equity	\$ 121,185	\$ 121,813

See accompanying notes to consolidated financial statements.



**GENIE ENERGY LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017 (Restated see Note 2)	2016 (Revised see Note 3)	2017	2016 (Revised see Note 3)
	(in thousands, except per share data)			
Revenues:				
Electricity	\$44,480	\$38,312	\$97,446	\$83,438
Natural gas	5,318	5,781	23,258	19,147
Other	449	468	949	856
Total revenues	50,247	44,561	121,653	103,441
Cost of revenues	38,122	26,446	84,678	61,278
Gross profit	12,125	18,115	36,975	42,163
Operating expenses, (gains) and losses:				
Selling, general and administrative (i)	24,742	15,934	43,544	31,943
Research and development	—	83	—	210
Exploration	952	1,426	1,803	3,117
Gain on consolidation of AMSO, LLC	—	(1,262 )	—	(1,262 )
Equity in the net loss of AMSO, LLC	—	—	—	222
(Loss) income from operations	(13,569)	1,934	(8,372 )	7,933
Interest income	70	104	156	186
Other expense, net	(274 )	(27 )	(561 )	(162 )
(Loss) income before income taxes	(13,773)	2,011	(8,777 )	7,957
Benefit from (provision for) income taxes	823	(594 )	(33 )	(1,690 )
Net (loss) income	(12,950)	1,417	(8,810 )	6,267
Net loss attributable to noncontrolling interests	381	1,344	824	2,163
Net (loss) income attributable to Genie Energy Ltd.	(12,569)	2,761	(7,986 )	8,430
Dividends on preferred stock	(370 )	(370 )	(740 )	(740 )
Net (loss) income attributable to Genie Energy Ltd. common stockholders.	\$(12,939)	\$2,391	\$(8,726 )	\$7,690
(Loss) earnings per share attributable to Genie Energy Ltd. common stockholders:				
Basic	\$(0.55 )	\$0.10	\$(0.37 )	\$0.34
Diluted	\$(0.55 )	\$0.10	\$(0.37 )	\$0.33

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Weighted-average number of shares used in calculation of (loss)  
earnings per share:

Basic	23,467	22,795	23,458	22,793
Diluted	23,467	23,603	23,458	23,644

Dividends declared per common share	\$0.075	\$0.06	\$0.15	\$0.12
(i) Stock-based compensation included in selling, general and administrative expenses	\$1,141	\$1,127	\$2,379	\$2,337

See accompanying notes to consolidated financial statements.

**GENIE ENERGY LTD.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	<b>2016</b>	2017	2016
	(Restated see Note 2)	(Revised see Note 3)		(Revised see Note 3)
	(in thousands)			
Net (loss) income	\$(12,950)	\$ 1,417	\$(8,810)	\$ 6,267
Other comprehensive income (loss):				
Foreign currency translation adjustments	440	(850 )	882	407
Comprehensive (loss) income	(12,510)	567	(7,928)	6,674
Comprehensive loss attributable to noncontrolling interests	560	1,335	1,261	2,157
Comprehensive (loss) income attributable to Genie Energy Ltd.	\$(11,950)	\$ 1,902	\$(6,667)	\$ 8,831

See accompanying notes to consolidated financial statements.

**GENIE ENERGY LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	Six Months Ended June 30,	
	2017	2016 (Revised see Note 2)
	(in thousands)	
Operating activities		
Net (loss) income	\$(8,810 )	\$6,267
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,041	196
Provision for doubtful accounts receivable	186	—
Deferred income taxes	(543 )	—
Stock-based compensation	1,969	2,337
Loss on disposal of property	—	25
Gain on consolidation of AMSO, LLC	—	(1,262 )
Equity in the net loss of AMSO, LLC	—	222
Change in assets and liabilities:		
Restricted cash	205	540
Trade accounts receivable	(834 )	(2,622 )
Inventory	1,271	4,135
Prepaid expenses	(2,401 )	3,730
Other current assets and other assets	(3,796 )	507
Trade accounts payable, accrued expenses and other current liabilities	10,124	(1,448 )
Due to IDT Corporation	60	(327 )
Income taxes payable	(1,740 )	991
Net cash (used in) provided by operating activities	(3,268 )	13,291
Investing activities		
Capital expenditures	(2,876 )	(135 )
Investments in capitalized exploration costs—unproved oil and gas property	(3,311 )	(12,758 )
Deposit for investment	(94 )	—
Repayment of notes receivable	446	—
Proceeds from disposal of property	—	27
Cash acquired from consolidation of AMSO, LLC	—	702
Capital contribution to AMSO, LLC received from Total	—	3,000
Capital contributions to AMSO, LLC	—	(63 )
Net cash used in investing activities	(5,835 )	(9,227 )

Financing activities		
Dividends paid	(4,440 )	(3,697 )
Purchase of equity of subsidiary	(278 )	—
Proceeds from revolving line of credit	14,450	—
Repayment of revolving line of credit	(12,655)	—
Decrease in restricted cash	10,000	—
Exercise of stock options	109	—
Repurchases of Class B common stock from employees	(23 )	(29 )
Payment for acquisitions	—	(183 )
Net cash provided by (used in) financing activities	7,163	(3,909 )
Effect of exchange rate changes on cash and cash equivalents	178	(69 )
Net (decrease) increase in cash and cash equivalents	(1,762 )	86
Cash and cash equivalents at beginning of period	35,192	38,786
Cash and cash equivalents at end of period	\$33,430	\$38,872

See accompanying notes to consolidated financial statements.

**GENIE ENERGY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1—Basis of Presentation**

The accompanying unaudited consolidated financial statements of Genie Energy Ltd. and its subsidiaries (the “Company” or “Genie”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The balance sheet at December 31, 2016 has been derived from the Company’s audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the U.S. Securities and Exchange Commission (the “SEC”).

The Company owns 99.3% of its subsidiary, Genie Energy International Corporation (“GEIC”), which owns 100% of Genie Retail Energy (“GRE”) and 92% of Genie Oil and Gas, Inc. (“GOGAS”). The Company’s principal businesses consist of the following:

Genie Retail Energy operates retail energy providers (“REPs”), including IDT Energy, Inc. (“IDT Energy”), Residents Energy, Inc. (“Residents Energy”) and Town Square Energy, and energy brokerage and marketing services. Its REP businesses resell electricity and natural gas to residential and small business customers primarily in the Eastern United States; and

Genie Oil and Gas is an oil and gas exploration company that consists of an 86.0% interest in Afek Oil and Gas, Ltd. (“Afek”), which operates an exploration project in the Golan Heights in Northern Israel, and certain inactive projects.

GRE has outstanding deferred stock units granted to officers and employees that represent an aggregate interest of 1.25% of the equity of GRE.

*Seasonality and Weather*

The weather and the seasons, among other things, affect GRE's revenues. Weather conditions have a significant impact on the demand for natural gas used for heating and electricity used for heating and cooling. Typically, colder winters increase demand for natural gas and electricity, and hotter summers increase demand for electricity. Milder winters and/or summers have the opposite effect. Natural gas revenues typically increase in the first quarter due to increased heating demands and electricity revenues typically increase in the third quarter due to increased air conditioning use. Approximately 43% and 64% of GRE's natural gas revenues for the relevant years were generated in the first quarter of 2016 and 2015, respectively, when demand for heating was highest. Although the demand for electricity is not as seasonal as natural gas (due, in part, to usage of electricity for both heating and cooling), approximately 31% and 29% of GRE's electricity revenues for the relevant years were generated in the third quarter of 2016 and 2015, respectively. GRE's revenues and operating income are subject to material seasonal variations, and the interim financial results are not necessarily indicative of the estimated financial results for the full year.

**Note 2—Restatement of Unaudited Consolidated Financial Statements and Additional Disclosure**

The unaudited consolidated statement of operations for the three months ended June 30, 2017 has been restated to properly reflect the Company's revenues, cost of revenues, income from operations, net income and earnings per share for that three-month period. Certain amounts recorded in the second quarter of 2017 should properly have been recorded in the first quarter. The unaudited consolidated statement of comprehensive loss for the three months ended June 30, 2017, and the notes to consolidated financial statements, were restated to make the associated changes required by the adjustments to the unaudited consolidated statement of operations.

The error related to the estimation of weather impact on the Company's estimated unbilled revenue. This estimation process is performed in an effort to allocate billings to a calendar period using historical consumption data of the customer base of the retail energy providers operated by the Company and applying a weather factor to estimated unbilled amounts. The weather adjustment was erroneous, causing understated amounts of estimated unbilled commodity consumption, resulting in under estimates of revenues and cost of revenues to be included in the three months ended March 31, 2017. The errors impacted revenue by \$2.0 million, gross profit and income (loss) from operations by \$1.2 million, and net income by \$1.1 million. The nature of the estimation processes is reversing, as actual billings representing the unbilled estimates manifest in the following period, in this case, in April 2017. The reversal of this estimate resulted in commodity consumption and the associated revenues and cost of revenues to be overstated in the three months ended June 30, 2017. The cumulative operating results for the six months ended June 30, 2017 were unaffected. The Company's GRE segment was the only segment affected by the misstatement.

The impact of the restatement on the Company's consolidated financial statements was as follows:

	Three Months Ended June 30, 2017		
	Previously Reported	Error Correction	Restated
	(in thousands, except per share data)		
Consolidated Statement of Operations:			
Electricity revenues	\$44,972	\$ (492 )	\$44,480
Natural gas revenues	\$6,791	\$ (1,473 )	\$5,318
Cost of revenues	\$38,859	\$ (737 )	\$38,122
Gross profit	\$13,353	\$ (1,228 )	\$12,125
Benefit from income taxes	\$700	\$ 123	\$823
Net loss	\$(11,845)	\$ (1,105 )	\$(12,950)
Net loss attributable to Genie Energy, Ltd	\$(11,464)	\$ (1,105 )	\$(12,569)
Comprehensive loss	\$(11,405)	\$ (1,105 )	\$(12,510)
Comprehensive loss attributable to Genie Energy, Ltd	\$(10,845)	\$ (1,105 )	\$(11,950)
Loss per share attributable to Genie Energy, Ltd. common stockholders:			
Basic	\$(0.50 )	\$ (0.05 )	\$(0.55 )
Diluted	\$(0.50 )	\$ (0.05 )	\$(0.55 )

In addition, the Company is revising Note 11 to include additional disclosure about the pending class action lawsuits in Pennsylvania, New York and New Jersey.

Note 3—Revised Unaudited Consolidated Financial Statements



In the consolidated statement of operations for the three and six months ended June 30, 2016, Pennsylvania gross receipt tax was previously recorded as a reduction to electricity revenue instead of as cost of revenues. Electricity revenues and cost of revenues were adjusted to correct the classification by reflecting additional revenue and cost of revenues in the consolidated statement of operations in the amount of \$0.6 million and \$1.3 million in the three and six months ended June 30, 2016, respectively.

GRE prepays various electricity costs that are subsequently charged to cost of revenues when the related electricity revenue is recognized. The Company concluded that certain of these amounts included in "Prepaid expenses" in its consolidated balance sheet at March 31, 2016 and June 30, 2016 should have been charged to cost of revenues in the first and second quarters of 2016. The Company revised its consolidated financial statements by reducing prepaid expenses and increasing electricity cost of revenues by \$0.7 million and \$1.5 million in the three and six months ended June 30, 2016, respectively.

The impact of these adjustments on the Company's consolidated financial statements was as follows:

Three Months Ended June 30, 2016				
	Previously Reported	Prepaid Expense Error	Gross Receipts Tax	Revised
		Correction	Correction	
(in thousands, except per share data)				
Electricity revenues	\$37,728	\$ —	\$ 584	\$38,312
Cost of revenues	\$25,171	\$ 691	\$ 584	\$26,446
Gross profit	\$18,806	\$ (691)	\$ —	\$18,115
Net income	\$2,108	\$ (691)	\$ —	\$1,417
Net income attributable to Genie Energy, Ltd	\$3,452	\$ (691)	\$ —	\$2,761
Comprehensive income	\$1,258	\$ (691)	\$ —	\$567
Comprehensive income attributable to Genie Energy, Ltd	\$2,593	\$ (691)	\$ —	\$1,902
Earnings per share attributable to Genie Energy, Ltd. common stockholders:				
Basic	\$0.14	\$ (0.04)	\$ —	\$0.10
Diluted	\$0.13	\$ (0.03)	\$ —	\$0.10

Six Months Ended June 30, 2016				
	Previously Reported	Prepaid Expense Error	Gross Receipts Tax	Revised
		Correction	Correction	
(in thousands, except per share data)				
Electricity revenues	\$82,112	\$ —	\$ 1,326	\$83,438
Cost of revenues	\$58,444	\$ 1,508	\$ 1,326	\$61,278
Gross profit	\$43,671	\$ (1,508)	\$ —	\$42,163
Net income	\$7,775	\$ (1,508)	\$ —	\$6,267
Net income attributable to Genie Energy, Ltd	\$9,938	\$ (1,508)	\$ —	\$8,430
Comprehensive income	\$8,182	\$ (1,508)	\$ —	\$6,674
Comprehensive income attributable to Genie Energy, Ltd	\$10,339	\$ (1,508)	\$ —	\$8,831
Earnings per share attributable to Genie Energy, Ltd. common stockholders:				
Basic	\$0.40	\$ (0.06)	\$ —	\$0.34
Diluted	\$0.39	\$ (0.06)	\$ —	\$0.33

## Note 4—Fair Value Measurements

The following table presents the balance of assets and liabilities measured at fair value on a recurring basis:

	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
	(in thousands)			
June 30, 2017				
Assets:				
Derivative contracts	\$432	\$ 3,620	\$ —	\$4,052
Liabilities:				
Derivative contracts	\$192	\$ 1,911	\$ —	\$2,103
December 31, 2016				
Assets:				
Derivative contracts	\$256	\$ 2,395	\$ —	\$2,651
Liabilities:				
Derivative contracts	\$60	\$ 1,667	\$ —	\$1,727

(1) – quoted prices in active markets for identical assets or liabilities

(2) – observable inputs other than quoted prices in active markets for identical assets and liabilities

(3) – no observable pricing inputs in the market

The Company's derivative contracts consist of natural gas and electricity put and call options and swaps. The underlying asset in the Company's put and call options is a forward contract. The Company's swaps are agreements whereby a floating (or market or spot) price is exchanged for a fixed price over a specified period. The Company's derivatives were classified as Level 1, Level 2 or Level 3. The Level 1 derivatives were valued using quoted prices in active markets for identical contracts. The Level 2 derivatives were valued using observable inputs based on quoted market prices in active markets for similar contracts. The fair value of the Level 3 derivatives was based on the value of the underlying contracts, estimated in conjunction with the counterparty and could not be corroborated by the market.

### *Fair Value of Other Financial Instruments*

The estimated fair value of the Company's other financial instruments was determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting

this data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange.

*Restricted cash—short-term and long-term, prepaid expenses, other current assets, revolving line of credit—current, due to IDT Corporation and other current liabilities.* At June 30, 2017 and December 31, 2016, the carrying amounts of these assets and liabilities approximated fair value because of the short period to maturity. The fair value estimate for restricted cash—short-term and long-term was classified as Level 1 and prepaid expenses, other current assets, revolving line of credit—current, due to IDT Corporation and other current liabilities were classified as Level 2 of the fair value hierarchy.

*Other assets, revolving line of credit—long-term and other liabilities.* At June 30, 2017 and December 31, 2016, other assets included an aggregate of \$0.6 million and \$1.5 million, respectively, in notes receivable. The carrying amounts of the notes receivable, revolving line of credit—long-term and other liabilities approximated fair value. The fair values were estimated based on the Company's assumptions, and were classified as Level 3 of the fair value hierarchy. The carrying amount of the revolving line of credit—long-term approximated fair value because it bears interest at a variable market rate.

#### **Note 5—Derivative Instruments**

The primary risk managed by the Company using derivative instruments is commodity price risk, which is accounted for in accordance with Accounting Standards Codification 815—Derivatives and Hedging. Natural gas and electricity put and call options and swaps are entered into as hedges against unfavorable fluctuations in market prices of natural gas and electricity. The Company does not apply hedge accounting to these options or swaps, therefore the changes in fair value are recorded in earnings. By using derivative instruments to mitigate exposures to changes in commodity prices, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk. The Company minimizes the credit or repayment risk in derivative instruments by entering into transactions with high-quality counterparties. At June 30, 2017 and December 31, 2016, GRE's swaps and options were traded on the New York Mercantile Exchange.

The summarized volume of GRE's outstanding contracts and options at June 30, 2017 was as follows (MWh – Megawatt hour and Dth – Decatherm):

Commodity	Settlement Dates	Volume
Electricity	July 2017	304,000 MWh
Electricity	August 2017	549,700 MWh
Electricity	September 2017	80,000 MWh
Electricity	October 2017	241,120 MWh
Electricity	November 2017	230,160 MWh
Electricity	December 2017	283,200 MWh
Electricity	January 2018	362,560 MWh
Electricity	February 2018	329,600 MWh
Electricity	March 2018	285,120 MWh
Electricity	April 2018	67,200 MWh
Electricity	May 2018	70,400 MWh
Electricity	June 2018	67,200 MWh
Electricity	July 2018	151,200 MWh
Electricity	August 2018	165,600 MWh
Electricity	September 2018	92,800 MWh
Electricity	October 2018	147,200 MWh
Electricity	November 2018	134,400 MWh
Electricity	December 2018	128,000 MWh
Natural gas	September 2017	600,000 Dth
Natural gas	October 2017	200,000 Dth
Natural gas	November 2017	800,000 Dth
Natural gas	December 2017	700,000 Dth
Natural gas	February 2018	929,000 Dth
Natural gas	March 2018	600,000 Dth
Natural gas	April 2018	200,000 Dth
Natural gas	July 2018	800,000 Dth

The fair value of outstanding derivative instruments recorded in the accompanying consolidated balance sheets were as follows:

Asset Derivatives	Balance Sheet Location	June 30, 2017	December 31, 2016
(in thousands)			
Derivatives not designated or not qualifying as hedging instruments:			
Energy contracts and options	Other current assets	\$4,052	\$ 2,651
Liability Derivatives			

Derivatives not designated or not qualifying as hedging instruments:

Energy contracts and options

Other current liabilities \$2,103 \$ 1,727

The effects of derivative instruments on the consolidated statements of operations were as follows:

		Amount of Gain (Loss) Recognized on Derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives not designated or not qualifying as hedging instruments	Location of Gain (Loss) Recognized on Derivatives	2017	2016	2017	2016
		(in thousands)			
Energy contracts and options	Cost of revenues	\$(1,471)	\$441	\$(2,719)	\$802

#### Note 6—Afek Oil and Gas Exploration Activities

The Company accounts for Afek's oil and gas activities under the successful efforts method of accounting. Under this method, the costs of drilling exploratory wells and exploratory-type stratigraphic test wells are capitalized, pending determination of whether the well has found proved reserves. Other exploration costs are charged to expense as incurred. Unproved properties are assessed for impairment, and if considered impaired, are charged to expense when such impairment is deemed to have occurred.

In April 2013, the Government of Israel finalized the award to Afek of an exclusive three-year petroleum exploration license covering 396.5 square kilometers in the southern portion of the Golan Heights in Northern Israel. The license has been extended to April 2018. Israel's Northern District Planning and Building Committee granted Afek a one-year permit that commenced in February 2015, which has been subsequently extended to April 18, 2018, to conduct an up to ten-well oil and gas exploration program. This permit as extended is expected to cover the remainder of Afek's ongoing exploration program in the area covered by its exploration license.

In February 2015, Afek began drilling its first exploratory well. To date, Afek has completed drilling five wells in the Southern region of its license area. Based on the analysis of the first five wells and market conditions at the time, in the third quarter of 2016, Afek determined that it did not have a clear path to demonstrate probable or possible reserves in the Southern region of its license area over the next 12 to 18 months. Since there was substantial doubt regarding the economic viability of these wells, in the third quarter of 2016, Afek wrote off the \$41.0 million of capitalized exploration costs incurred in the Southern region.

Afek has turned its operational focus to the Northern region of its license area. Afek views the Northern and Southern regions separately when evaluating its unproved properties. In 2017, Afek commenced drilling its sixth exploratory well in the Northern region of its license area. Afek expects to complete drilling of the well during the third quarter of 2017. At June 30, 2017 and December 31, 2016, the Company had capitalized exploration costs of \$3.4 million and nil, respectively. In the three months ended June 30, 2017 and 2016, the Company recognized exploration expense of \$1.0 million and \$1.4 million, respectively, and in the six months ended June 30, 2017 and 2016, the Company recognized exploration expense of \$1.8 million and \$3.1 million, respectively.

Afek assesses the economic and operational viability of its project on an ongoing basis, and to date believes that sufficient progress is being made in regards to its current project. The assessment requires significant estimates and assumptions by management. Should Afek's estimates or assumptions regarding the recoverability of its capitalized exploration costs prove to be incorrect, Afek may be required to record impairments of such costs in future periods and such impairments could be material.

## Note 7—Equity

Changes in the components of equity were as follows:

Six Months Ended June 30, 2017	
Attributable to Genie	Noncontrolling Interests Total

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	(in thousands)		
Balance, December 31, 2016	\$96,534	\$ (16,669	) \$79,865
Dividends on preferred stock	(740 )	—	(740 )
Dividends on common stock (\$0.15 per share)	(3,700 )	—	(3,700 )
Exercise of stock options	109	—	109
Restricted Class B common stock purchased from employees	(23 )	—	(23 )
Purchase of equity of subsidiary	(655 )	377	(278 )
Stock-based compensation	1,552	—	1,552
Comprehensive loss:			
Net loss	(7,986 )	(824	) (8,810 )
Foreign currency translation adjustments	1,319	(437	) 882
Comprehensive loss	(6,667 )	(1,261	) (7,928 )
Balance, June 30, 2017	\$86,410	\$ (17,553	) \$68,857

*Dividend Payments*

In the six months ended June 30, 2017 and 2016, the Company paid aggregate quarterly Base Dividends of \$0.3188 per share on its Series 2012-A Preferred Stock (“Preferred Stock”), or \$0.7 million in total. On July 13, 2017, the Company’s Board of Directors declared a quarterly Base Dividend of \$0.1594 per share on the Preferred Stock for the second quarter of 2017. The dividend will be paid on or about August 15, 2017 to stockholders of record as of the close of business on August 4, 2017.

In the six months ended June 30, 2017, the Company paid aggregate quarterly dividends of \$0.15 per share on its Class A common stock and Class B common stock, or \$3.7 million in total. In the six months ended June 30, 2016, the Company paid aggregate quarterly dividends of \$0.12 per share on its Class A common stock and Class B common stock, or \$3.0 million in total. On August 2, 2017, the Company’s Board of Directors declared a quarterly dividend of \$0.075 per share on its Class A common stock and Class B common stock for the second quarter of 2017. The dividend will be paid on or about August 25, 2017 to stockholders of record as of the close of business on August 15, 2017.

*Stock Repurchase Program*

On March 11, 2013, the Board of Directors of the Company approved a stock repurchase program for the repurchase of up to an aggregate of 7.0 million shares of the Company’s Class B common stock. There were no repurchases under this program in the six months ended June 30, 2017 or 2016. At June 30, 2017, 6.9 million shares remained available for repurchase under the stock repurchase program.



*Purchase of Equity of Subsidiary*

In March 2017, GOGAS purchased from an employee of Afek a 1% fully vested interest in Afek for \$0.3 million in cash.

*Subsequent Event — Issuance of Class B Common Stock*

GRE has the right, at its option, to satisfy its obligations to issue common stock of GRE upon the vesting of the deferred stock units it granted in July 2015 to officers and employees of the Company in shares of the Company's Class B common stock or cash. In August 2017, the Company issued 160,748 shares of the Company's Class B common stock in exchange for 26.1 vested deferred stock units of GRE.

*Variable Interest Entities*

Citizens Choice Energy, LLC ("CCE"), is a REP that resells electricity and natural gas to residential and small business customers in the State of New York. The Company does not own any interest in CCE. Since 2011, the Company provided CCE with substantially all of the cash required to fund its operations. The Company determined that it has the power to direct the activities of CCE that most significantly impact its economic performance and it has the obligation to absorb losses of CCE that could potentially be significant to CCE on a stand-alone basis. The Company therefore determined that it is the primary beneficiary of CCE, and as a result, the Company consolidates CCE within its GRE segment. The net income or loss incurred by CCE was attributed to noncontrolling interests in the accompanying consolidated statements of operations.

The Company has an option to purchase 100% of the issued and outstanding limited liability company interests of CCE for one dollar plus the forgiveness of \$0.5 million that the Company loaned to CCE in October 2015. The option expires on October 22, 2023.

Net loss related to CCE and aggregate net funding (provided by) repaid to the Company in order to finance CCE's operations were as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	2017	2016	2017	2016
	(in thousands)			
Net loss	\$(136)	\$(1,155)	\$(333)	\$(1,726)
Aggregate funding (provided by) repaid to the Company, net	\$(42 )	\$(627 )	\$29	\$(998 )

Summarized combined balance sheet amounts related to CCE was as follows:

	June 30, 2017	December 31, 2016
	(in thousands)	
Assets		
Cash and cash equivalents	\$92	\$ 150
Restricted cash	12	17
Trade accounts receivable	909	1,008
Prepaid expenses	385	450
Other current assets	26	26
Other assets	439	439
Total assets	\$1,863	\$ 2,090
Liabilities and noncontrolling interests		
Current liabilities	\$842	\$ 707
Due to IDT Energy	1,269	1,298
Noncontrolling interests	(248 )	85
Total liabilities and noncontrolling interests	\$1,863	\$ 2,090

The assets of CCE may only be used to settle obligations of CCE, and may not be used for other consolidated entities. The liabilities of CCE are non-recourse to the general credit of the Company's other consolidated entities.

**Note 8—(Loss) Earnings Per Share**

Basic earnings per share is computed by dividing net income or loss attributable to all classes of common stockholders of the Company by the weighted average number of shares of all classes of common stock outstanding during the applicable period. Diluted earnings per share is computed in the same manner as basic earnings per share, except that the number of shares is increased to include restricted stock still subject to risk of forfeiture and to assume exercise of potentially dilutive stock options using the treasury stock method, unless the effect of such increase is anti-dilutive.

The weighted-average number of shares used in the calculation of basic and diluted earnings per share attributable to the Company's common stockholders consists of the following:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	2017	2016	2017	2016
	(in thousands)			
Basic weighted-average number of shares	23,467	22,795	23,458	22,793
Effect of dilutive securities:				
Stock options	—	17	—	29
Non-vested restricted Class B common stock	—	791	—	822
Diluted weighted-average number of shares	23,467	23,603	23,458	23,644

The following shares were excluded from the diluted earnings per share computation:

	<b>Three Months Ended</b>		<b>Six Months Ended June 30,</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	2017	2016	2017	2016
	(in thousands)			
Stock options	384	—	384	—
Non-vested restricted Class B common stock	1,206	—	1,206	—
Shares excluded from the calculation of diluted earnings per share	1,590	—	1,590	—

In the three and six months ended June 30, 2017, the diluted loss per share computation equals basic loss per share because the Company had a net loss and the impact of the assumed exercise of stock options and the vesting of restricted stock would have been anti-dilutive.

An entity affiliated with Lord (Jacob) Rothschild has a one-time option, subject to certain conditions and exercisable between November 2017 and February 2018, to exchange its GOGAS shares for shares of the Company with equal fair value as determined by the parties. The number of shares issuable in such an exchange is not currently determinable. If this option is exercised, the shares issued by the Company may dilute the earnings per share in future periods.

An employee of the Company, pursuant to the terms of his employment agreement, has the option to exchange his equity interests in Afek, Genie Mongolia, Inc. ("Genie Mongolia"), Israel Energy Initiatives, Ltd. ("IEI"), and any equity interest that he may acquire in other entities that the Company may create, for shares of the Company. In addition, employees and directors of the Company that were previously granted restricted stock of Afek and Genie Mongolia have the right to exchange the restricted stock, upon vesting of such shares, into shares of the Company's Class B common stock. GRE has the right, at its option, to satisfy its obligations to issue common stock of GRE upon the vesting of the deferred stock units it granted in July 2015 to officers and employees of the Company in shares of the Company's Class B common stock or cash. These exchanges and issuances, if elected, would be based on the relative fair value of the shares exchanged or to be issued. The number of shares of the Company's stock issuable in an exchange is not currently determinable. If shares of the Company's stock are issued upon such exchange, the Company's earnings per share may be diluted in future periods.

**Note 9—Related Party Transactions**

The Company was formerly a subsidiary of IDT Corporation (“IDT”). On October 28, 2011, the Company was spun-off by IDT (the “Spin-Off”). The Company entered into various agreements with IDT prior to the Spin-Off including an agreement for certain services to be performed by the Company and IDT. Following the Spin-Off, the charges for services provided by IDT are included in “Selling, general and administrative” expense in the consolidated statements of operations. Also, the Company provides specified administrative services to certain of IDT’s foreign subsidiaries. The charges for these services reduce the Company’s “Selling, general and administrative” expense.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	2017	2016	2017	2016
	(in thousands)			
Amount IDT charged the Company	\$495	\$502	\$872	\$935
Amount the Company charged IDT	\$121	\$155	\$230	\$274

**Note 10—Business Segment Information**

The Company owns 99.3% of its subsidiary, GEIC, which owns 100% of GRE and 92% of GOGAS. The Company has three reportable business segments: GRE, Afek and GOGAS. GRE operates REPs, including IDT Energy, Residents Energy and Town Square Energy, and energy brokerage and marketing services. Its REP businesses resell electricity and natural gas to residential and small business customers primarily in the Eastern United States. GRE has outstanding deferred stock units granted to officers and employees that represent an aggregate interest of 1.25% of the equity of GRE. The Afek segment is comprised of the Company’s 86.0% interest in Afek, which operates an oil and gas exploration project in the Golan Heights in Northern Israel. The GOGAS segment is comprised of inactive oil shale projects including AMSO, LLC, Genie Mongolia, and IEI. Corporate costs include unallocated compensation, consulting fees, legal fees, business development expense and other corporate-related general and administrative expenses. Corporate does not generate any revenues, nor does it incur any cost of revenues.

The Company’s reportable segments are distinguished by types of service, customers and methods used to provide their services. The operating results of these business segments are regularly reviewed by the Company’s chief operating decision maker.

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The accounting policies of the segments are the same as the accounting policies of the Company as a whole. The Company evaluates the performance of its business segments based primarily on income (loss) from operations. There are no significant asymmetrical allocations to segments.

Operating results for the business segments of the Company were as follows:

(in thousands)	GRE	Afek	GOGAS	Corporate	Total
Three Months Ended June 30, 2017					
Revenues (restated see Note 2)	\$50,247	\$—	\$—	\$—	\$50,247
Loss from operations (restated see Note 2)	(9,394 )	(1,316)	(95 )	(2,764 )	(13,569 )
Exploration	—	952	—	—	952
Three Months Ended June 30, 2016					
Revenues (revised see Note 3)	\$44,561	\$—	\$—	\$—	\$44,561
Income (loss) from operations	5,168	(1,788)	838	(2,284 )	1,934
Research and development	—	—	83	—	83
Exploration	—	1,426	—	—	1,426
Gain on consolidation of AMSO, LLC	—	—	1,262	—	1,262
Six Months Ended June 30, 2017					
Revenues	\$121,653	\$—	\$—	\$—	\$121,653
Loss from operations	(420 )	(2,601)	(192 )	(5,159 )	(8,372 )
Exploration	—	1,803	—	—	1,803
Six Months Ended June 30, 2016					
Revenues (revised see Note 3)	\$103,441	\$—	\$—	\$—	\$103,441
Income (loss) from operations	15,866	(3,615)	369	(4,687 )	7,933
Research and development	—	—	210	—	210
Exploration	—	3,117	—	—	3,117
Equity in the net loss of AMSO, LLC	—	—	222	—	222
Gain on consolidation of AMSO, LLC	—	—	1,262	—	1,262

Total assets for the business segments of the Company were as follows:

(in thousands)	GRE	Afek	GOGAS	Corporate	Total
Total assets:					
June 30, 2017	\$93,061	\$11,984	\$10,495	\$5,645	\$121,185
December 31, 2016	87,539	6,685	12,224	15,365	121,813

## Note 11—Commitments and Contingencies

### *Legal Proceedings*

On March 13, 2014, named plaintiff, Anthony Ferrare, commenced a putative class-action lawsuit against IDT Energy, Inc. in the Court of Common Pleas of Philadelphia County, Pennsylvania. The complaint was served on IDT Energy on July 16, 2014. The named plaintiff filed the suit on behalf of himself and other former and current electric customers of IDT Energy in Pennsylvania with variable rate plans, whom he contends were injured as a result of IDT Energy's allegedly unlawful sales and marketing practices. On August 7, 2014, IDT Energy removed the case to the United States District Court for the Eastern District of Pennsylvania. On October 20, 2014, IDT Energy moved to stay or, alternatively, dismiss the complaint, as amended, by the named plaintiff. On November 10, 2014, the named plaintiff opposed IDT Energy's motion to dismiss and IDT Energy filed a reply memorandum of law in further support of its motion to dismiss. On June 10, 2015, the Court granted IDT Energy's motion to stay and denied its motion to dismiss without prejudice. The parties participated in mediation, and subsequently entered into a Settlement Agreement, which must be reviewed and approved by the Court (see below).

On July 2, 2014, named plaintiff, Louis McLaughlin, filed a putative class-action lawsuit against IDT Energy, Inc. in the United States District Court for the Eastern District of New York, contending that he and other class members were injured as a result of IDT Energy's allegedly unlawful sales and marketing practices. The named plaintiff filed the suit on behalf of himself and two subclasses: all IDT Energy customers who were charged a variable rate for their energy from July 2, 2008, and all IDT Energy customers who participated in IDT Energy's rebate program from July 2, 2008. On January 22, 2016, the named plaintiff filed an amended complaint on behalf of himself and all IDT Energy customers in New York State against IDT Energy, Inc., Genie Retail Energy, Genie Energy International Corporation, and Genie Energy Ltd. (collectively, "IDT Energy"). On February 22, 2016, IDT Energy moved to dismiss the amended complaint, and the named plaintiff opposed that motion. The parties participated in mediation, and subsequently entered into a Settlement Agreement, which must be reviewed and approved by the Court (see below).

On July 15, 2014, named plaintiff, Kimberly Aks, commenced a putative class-action lawsuit against IDT Energy, Inc. in New Jersey Superior Court, Essex County, contending that she and other class members were injured as a result of IDT Energy's alleged unlawful sales and marketing practices. The named plaintiff filed the suit on behalf of herself and all other New Jersey residents who were IDT Energy customers at any time between July 11, 2008 and the present. The parties were engaged in discovery prior to the mediation described below. On April 20, 2016, the named plaintiff filed an amended complaint on behalf of herself and all IDT Energy customers in New Jersey against IDT Energy, Inc., Genie Retail Energy, Genie Energy International Corporation and Genie Energy Ltd. On June 27, 2016, defendants Genie Retail Energy, Genie Energy International Corporation and Genie Energy Ltd. filed a motion to dismiss the amended complaint. On August 26, 2016, the named plaintiff opposed that motion and IDT Energy filed a reply memorandum of law in further support of its motion to dismiss. The Court granted the motion to dismiss, but the parties agreed to set aside that decision to give the plaintiff an opportunity to submit opposition papers that had not been considered by the Court in rendering its decision. The parties participated in mediation, and subsequently entered into a Settlement Agreement, which must be reviewed and approved by the Court (see below).

On July 5, 2017, the Company entered into a class action Settlement Agreement with the class action plaintiffs acting individually and on behalf of the entire class, in the lawsuits currently pending in Pennsylvania, New York, and New Jersey described above. The Company does not believe that there was any wrongdoing on its part, and is entering into this settlement to further its efforts to address its customers' concerns. Under the Settlement Agreement, the Company has agreed to pay certain amounts to resolve the lawsuits and obtain a release of claims that were asserted or could be asserted in the lawsuits or that are related to or arise out of the conduct alleged in the lawsuits or similar conduct, wherever it may have occurred. The settlement payment includes payments to customers who timely make a claim, class counsel, and the named plaintiffs as well as the cost of a claims administrator for administering the claims process. The Company estimated, based in part on historical participation rates that its total settlement payment will be approximately \$9 million, although it is reasonably possible that the total payments could reach \$10.1 million. In the three months ended June 30, 2017, in the consolidated statement of operations, the Company recorded a revenue reduction of \$3.6 million and an expense of \$5.4 million that is included in "Selling, general and administrative expense", and a liability of \$9.0 million that is included in "Accrued expenses" in the consolidated balance sheet. The actual amount to be paid out will depend on several factors, including the number of customers who claim settlement payments to which they are entitled. The Settlement Agreement is subject to entry of a final order by the court approving the Settlement Agreement. The parties are preparing a Motion for Preliminary Approval to initiate that process.



On June 20, 2014, the Pennsylvania Attorney General's Office ("AG") and the Acting Consumer Advocate ("OCA") filed a Joint Complaint against IDT Energy, Inc. with the Pennsylvania Public Utility Commission ("PUC"). In the Joint Complaint, the AG and the OCA alleged, among other things, various violations of Pennsylvania's Unfair Trade Practices and Consumer Protection Law, the Telemarketing Registration Act and the PUC's regulations. IDT Energy reached an agreement in principle on a settlement with the AG and the OCA to terminate the litigation with no admission of liability or finding of wrongdoing by IDT Energy. On August 4, 2015, IDT Energy, the AG, and the OCA filed a Joint Petition to the Pennsylvania PUC seeking approval of the settlement terms. Under the settlement, IDT Energy will issue additional refunds to its Pennsylvania customers who had variable rates for electricity supply in January, February and March of 2014. IDT Energy will also implement certain modifications to its sales, marketing and customer service processes, along with additional compliance and reporting requirements. The settlement was approved by the Pennsylvania PUC on July 8, 2016. In July 2016, IDT Energy paid the agreed-upon \$2.4 million for additional customer refunds to a refund administrator, and that administrator is currently in the process of issuing the additional refunds to customers.

From time to time, the Company receives inquiries or requests for information or materials from public utility commissions or other governmental regulatory or law enforcement agencies related to investigations under statutory or regulatory schemes, and the Company responds to those inquiries or requests. The Company cannot predict whether any of those matters will lead to claims or enforcement actions.

In addition to the above, the Company may from time to time be subject to legal proceedings that arise in the ordinary course of business. Although there can be no assurance in this regard, the Company does not expect any of those legal proceedings to have a material adverse effect on the Company's results of operations, cash flows or financial condition.

#### *New York Public Service Commission Orders*

On February 23, 2016, the New York Public Service Commission ("PSC") issued an order that sought to impose significant new restrictions on REPs operating in New York, including those owned by GRE. The restrictions described in the PSC's order, which were to become effective March 4, 2016, would have required that all REPs' electricity and natural gas offerings to residential and small business customers include an annual guarantee of savings compared to the price charged by the relevant incumbent utility or, for electricity offerings, provide at least 30% of the supply from renewable sources. Customers not enrolled in a compliant program would be relinquished back to the local utility at the end of their contract period or, for variable price customers operating on month to month agreements, at the end of the current monthly billing cycle.

On March 4, 2016, a group of parties from the REP industry sought and won a temporary restraining order to stay implementation of the most restrictive portions of the PSC's order pending a court hearing on those parties' motion for a preliminary injunction. On July 25, 2016, the New York State Supreme Court, County of Albany, entered a decision

and order granting the Petitioners' petition, vacated provisions 1 through 3 of the Order, and remitted the matter to the PSC for further proceedings consistent with the Court's order.

On December 2, 2016, the PSC noticed an evidentiary hearing scheduled to take place in 2017 to assess the retail energy market in New York. That process is underway and is expected to last for at least several more months. The Company is evaluating the potential impact of any new order from the PSC that would follow from the evidentiary process, while preparing to operate in compliance with any new requirements that may be imposed. Depending on the final language of any new order, as well as the Company's ability to modify its relationships with its New York customers, an order could have a substantial impact upon the operations of GRE-owned REPs in New York.

On July 14, 2016, and on September 19, 2016, the PSC issued orders restricting REPs, including those owned by GRE, from serving customers enrolled in New York's utility low-income assistance programs. Representatives of the REP industry challenged the ruling in New York State Supreme Court, Albany County, and, on September 27, 2016, the court issued an order temporarily restraining the PSC from implementing the July and September orders. On December 16, 2016, the PSC issued an order prohibiting REP service to customers enrolled in New York's utility low-income assistance programs. After an agreed-upon delay, on July 5, 2017, the New York State Supreme Court, Albany County, denied interested parties' efforts to invalidate the PSC's order and the order went into effect on July 26, 2017. Several REPs have appealed the Supreme Court's Order to the Appellate Division, Third Department. Pending the outcome of the appeal, low-income customers in New York are forbidden to select a REP for either their electricity or natural gas supply. Additionally, unless a stay of the order is obtained, REPs will be required to return service of their current low-income customers to the relevant local incumbent utility at the end of August 2017. Due to the pending legal activity, the Company is not yet in a position to determine the exact number of customers it will no longer be able to serve. Additionally, this ruling will impact the Company's ability to sign new customers in New York as the addressable market will be smaller. If challenges to the order as currently structured are not successful, the combination of customers returned to the utility and the smaller addressable market in New York could have a material adverse impact on the Company's future results.

#### *Purchase Commitments*

The Company had purchase commitments of \$30.6 million at June 30, 2017, of which \$28.7 million was for future purchases of electricity. The purchase commitments outstanding at June 30, 2017 are expected to be paid as follows: \$24.6 million in the twelve months ending June 30, 2018, \$5.5 million in the twelve months ending June 30, 2019, and \$0.5 million in the twelve months ending June 30, 2020.

### *Renewable Energy Credits*

GRE must obtain a certain percentage or amount of its power supply from renewable energy sources in order to meet the requirements of renewable portfolio standards in the states in which it operates. This requirement may be met by obtaining renewable energy credits that provide evidence that electricity has been generated by a qualifying renewable facility or resource. At June 30, 2017, GRE had commitments to purchase renewable energy credits of \$35.7 million.

### *United Kingdom Joint Venture*

On July 17, 2017, the Company's subsidiary, Genie Energy UK Ltd., entered into a definitive agreement with a partner to launch a joint venture offering electricity and natural gas service to residential and small business customers in the United Kingdom. The Company's initial funding of the joint venture was £75,000 (\$94,000). The Company is committed to provide the joint venture with an additional £910,000 (\$1.2 million at June 30, 2017) by late August 2017. The Company will fund an aggregate of £5,065,000 (\$6.6 million at June 30, 2017) between September 1, 2017 and August 1, 2018, contingent on the achievement by the joint venture of performance based milestones.

### *Tax Audits*

The Company is subject to audits in various jurisdictions for various taxes. The U.S. Internal Revenue Service has commenced an audit of the Afek Oil & Gas Ltd. tax return for 2014. Amounts asserted by taxing authorities or the amount ultimately assessed against the Company could be greater than accrued amounts. Accordingly, additional provisions may be recorded in the future as revised estimates are made or underlying matters are settled or resolved. Imposition of assessments as a result of tax audits could have an adverse effect on the Company's results of operations, cash flows and financial condition.

### *Performance Bonds*

GRE has performance bonds issued through a third party for the benefit of various states in order to comply with the states' financial requirements for REPs and for certain utility companies. At June 30, 2017, GRE had aggregate performance bonds of \$12.6 million outstanding.

*BP Energy Company Preferred Supplier Agreement*

As of November 19, 2015, IDT Energy and certain of its affiliates entered into an Amended and Restated Preferred Supplier Agreement with BP Energy Company (“BP”). The agreement’s termination date is November 30, 2019, except either party may terminate the agreement on November 30, 2018 by giving the other party notice by May 31, 2018. Under the agreement, IDT Energy purchases electricity and natural gas at market rate plus a fee. IDT Energy’s obligations to BP are secured by a first security interest in deposits or receivables from utilities in connection with their purchase of IDT Energy’s customer’s receivables, and in any cash deposits or letters of credit posted in connection with any collateral accounts with BP. In addition, IDT Energy must pay an advance payment of \$2.5 million to BP each month that BP will apply to the next invoiced amount due to BP. IDT Energy’s ability to purchase electricity and natural gas under this agreement is subject to satisfaction of certain conditions including the maintenance of certain covenants. At June 30, 2017, the Company was in compliance with such covenants. At June 30, 2017, restricted cash—short-term of \$0.2 million and trade accounts receivable of \$24.5 million were pledged to BP as collateral for the payment of IDT Energy’s trade accounts payable to BP of \$8.9 million at June 30, 2017.

**Note 12—Revolving Lines of Credit**

On April 4, 2017, GRE, IDT Energy, and other GRE subsidiaries entered into a Credit Agreement with Vantage Commodities Financial Services II, LLC (“Vantage”) for a \$20 million revolving line of credit. The borrowers consist of the Company’s subsidiaries that operate REP businesses, and those subsidiaries’ obligations are guaranteed by GRE. On April 4, 2017, the borrowers borrowed \$4.3 million under this facility, which included \$1.7 million that was previously outstanding under a credit facility between Retail Energy Holdings, LLC (“REH”), a subsidiary of the Company that operates as Town Square Energy, and Vantage. The REH Credit Agreement with Vantage was terminated in connection with the entry into this credit agreement. The borrowers have provided as collateral a security interest in their receivables, bank accounts, customer agreements, certain other material agreements and related commercial and intangible rights. Outstanding principal amount incurs interest at LIBOR plus 4.5% per annum. Interest is payable monthly and all outstanding principal and any accrued and unpaid interest is due on the maturity date of April 3, 2020. At June 30, 2017, \$2.5 million was outstanding under the revolving line of credit and the effective interest rate was 5.72% per annum. The borrowers are required to comply with various affirmative and negative covenants, including maintaining a target tangible net worth during the term of the credit agreement. To date, the Company is in compliance with such covenants.

REH had a Credit Agreement with Vantage for a revolving line of credit for up to a maximum principal amount of \$7.5 million. The principal outstanding incurred interest at one-month LIBOR plus 5.25% per annum, payable monthly. The outstanding principal and any accrued and unpaid interest was due on the maturity date of October 31, 2017. At December 31, 2016, \$0.7 million was outstanding under the line of credit.

The Company and IDT Energy had a Loan Agreement with JPMorgan Chase Bank for a revolving line of credit for up to a maximum principal amount of \$25.0 million. The principal outstanding incurred interest at the lesser of (a) the LIBOR rate multiplied by the statutory reserve rate established by the Board of Governors of the Federal Reserve System plus 1.0% per annum, or (b) the maximum rate per annum permitted by whichever of applicable federal or Texas laws permit the higher interest rate. Interest was payable at least every three months and any outstanding principal and accrued and unpaid interest was due on the maturity date of May 31, 2017. The Company agreed to deposit cash in a money market account at JPMorgan Chase Bank as collateral for the line of credit equal to the greater of (a) \$10.0 million or (b) the sum of the amount of letters of credit outstanding plus the outstanding principal under the revolving note. At December 31, 2016, there were no amounts borrowed under the line of credit, and cash collateral of \$10.0 million was included in “Restricted cash—short-term” in the consolidated balance sheet. In addition, at December 31, 2016, letters of credit of \$8.1 million were outstanding. On May 31, 2017, the \$10.0 million cash collateral was released upon expiration of the Loan Agreement.

### **Note 13—Recently Issued Accounting Standards Not Yet Adopted**

In May 2014, the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard that will supersede most of the current revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards (“IFRS”). The goals of the revenue recognition project were to clarify and converge the revenue recognition principles under U.S. GAAP and IFRS and to develop guidance that would streamline and enhance revenue recognition requirements. The Company expects to adopt this standard on January 1, 2018. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard. The Company is in the process of evaluating the impact that the standard will have on its consolidated financial statements. Based on the Company’s preliminary assessment, the main areas of potential impact of the new standard relate to accounting for customer acquisition costs and rebates programs. The Company plans to use the modified retrospective approach for the adoption of the standard. At this stage of the implementation process, the Company cannot reasonably estimate the impact that the adoption of the standard will have on its consolidated financial statements.

In January 2016, the FASB issued an Accounting Standards Update (“ASU”) to provide more information about recognition, measurement, presentation and disclosure of financial instruments. The amendments in the ASU include, among other changes, the following: (1) equity investments (except those accounted for under the equity method or that result in consolidation) will be measured at fair value with changes in fair value recognized in net income, (2) a qualitative assessment each reporting period to identify impairment of equity investments without readily determinable fair values, (3) financial assets and financial liabilities will be presented separately by measurement category and form of financial asset on the balance sheet or the notes to the financial statements, and (4) an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. Entities will no longer be able to recognize unrealized holding gains and losses on equity securities classified as available-for-sale in other comprehensive income. In addition, a practicability exception will be available for equity investments that do not have readily determinable fair values and do not qualify for the net asset value practical expedient. These investments may be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or

similar investment of the same issuer. Entities will have to reassess at each reporting period whether an investment qualifies for this practicability exception. The Company will adopt the amendments in this ASU on January 1, 2018. The Company is evaluating the impact that the ASU will have on its consolidated financial statements.

In February 2016, the FASB issued an ASU related to the accounting for leases. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company will adopt the new standard on January 1, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is evaluating the impact that the new standard will have on its consolidated financial statements.

In June 2016, the FASB issued an ASU that changes the impairment model for most financial assets and certain other instruments. For receivables,