

Genie Energy Ltd.
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

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.

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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 7, 2018, 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: 24,876,386 shares outstanding (excluding 100,500 treasury shares)

GENIE ENERGY LTD.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

GENIE ENERGY LTD.

CONSOLIDATED BALANCE SHEETS

| | June 30, 2018 | December 31, 2017 |
|---|-----------------------------|----------------------------------|
| | (Unaudited) (Note 1) | |
| | (in thousands) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$43,175 | \$ 29,913 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$1,601 and \$1,099 at June 30, 2018 and December 31, 2017, respectively | 31,019 | 44,629 |
| Inventory | 7,765 | 3,986 |
| Prepaid expenses | 6,110 | 6,131 |
| Other current assets | 3,769 | 5,503 |
| Total current assets | 91,838 | 90,162 |
| Property and equipment, net | 702 | 4,020 |
| Goodwill | 9,998 | 9,998 |
| Other intangibles, net | 4,918 | 4,859 |
| Investment in joint venture | 2,203 | 3,450 |
| Restricted cash—long-term | 984 | 1,496 |
| Deferred income tax assets, net | 2,028 | 2,141 |
| Other assets | 11,714 | 9,652 |
| Total assets | \$124,385 | \$ 125,778 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Trade accounts payable | \$16,424 | \$ 21,068 |
| Accrued expenses | 25,254 | 28,069 |
| Income taxes payable | 1,300 | 2,204 |
| Due to IDT Corporation | 154 | 228 |
| Other current liabilities | 3,696 | 3,172 |

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| | | |
|---|-----------|-----------|
| Total current liabilities | 46,828 | 54,741 |
| Revolving line of credit | 2,514 | 2,513 |
| Other liabilities | 1,356 | 1,396 |
| Total liabilities | 50,698 | 58,650 |
| 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, 2018 and December 31, 2017 | 19,743 | 19,743 |
| Class A common stock, \$.01 par value; authorized shares—35,000; 1,574 shares issued and outstanding at June 30, 2018 and December 31, 2017 | 16 | 16 |
| Class B common stock, \$.01 par value; authorized shares—200,000; 24,977 and 23,601 shares issued and 24,876 and 23,270 shares outstanding at June 30, 2018 and December 31, 2017, respectively | 250 | 236 |
| Additional paid-in capital | 133,037 | 130,870 |
| Treasury stock, at cost, consisting of 101 and 331 shares of Class B common stock at June 30, 2018 and December 31, 2017, respectively | (735) | (2,428) |
| Accumulated other comprehensive income | 2,401 | 3,045 |
| Accumulated deficit | (67,715) | (67,469) |
| Total Genie Energy Ltd. stockholders' equity | 86,997 | 84,013 |
| Noncontrolling interests | (13,310) | (16,885) |
| Total equity | 73,687 | 67,128 |
| Total liabilities and equity | \$124,385 | \$125,778 |

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, | |
|---|---------------------------------------|-------------|------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands, except per share data) | | | |
| Revenues: | | | | |
| Electricity | \$48,514 | \$44,480 | \$113,849 | \$97,446 |
| Natural gas | 7,362 | 5,318 | 30,791 | 23,258 |
| Other | 557 | 449 | 1,062 | 949 |
| Total revenues | 56,433 | 50,247 | 145,702 | 121,653 |
| Cost of revenues | 40,361 | 38,122 | 105,171 | 84,678 |
| Gross profit | 16,072 | 12,125 | 40,531 | 36,975 |
| Operating expenses and losses: | | | | |
| Selling, general and administrative (i) | 15,369 | 24,742 | 32,467 | 43,544 |
| Write-down of assets held for sale to fair value | 2,291 | — | 2,291 | — |
| Exploration | 17 | 952 | 244 | 1,803 |
| Equity in the net loss of joint venture | 716 | — | 1,221 | — |
| (Loss) income from operations | (2,321) | (13,569) | 4,308 | (8,372) |
| Interest income | 108 | 70 | 189 | 156 |
| Interest expense | (81) | (116) | (173) | (155) |
| Other income (expense), net | 58 | (158) | 100 | (406) |
| (Loss) income before income taxes | (2,236) | (13,773) | 4,424 | (8,777) |
| (Provision for) benefit from income taxes | (258) | 823 | (1,057) | (33) |
| Net (loss) income | (2,494) | (12,950) | 3,367 | (8,810) |
| Net loss attributable to noncontrolling interests | 575 | 381 | 870 | 824 |
| Net (loss) income attributable to Genie Energy Ltd. | (1,919) | (12,569) | 4,237 | (7,986) |
| Dividends on preferred stock | (370) | (370) | (740) | (740) |
| Net (loss) income attributable to Genie Energy Ltd. common stockholders | \$(2,289) | \$(12,939) | \$3,497 | \$(8,726) |
| (Loss) earnings per share attributable to Genie Energy Ltd. common stockholders: | | | | |
| Basic | \$(0.09) | \$(0.55) | \$0.14 | \$(0.37) |
| Diluted | \$(0.09) | \$(0.55) | \$0.14 | \$(0.37) |
| Weighted-average number of shares used in calculation of (loss) earnings per share: | | | | |
| Basic | 24,584 | 23,467 | 24,440 | 23,458 |
| Diluted | 24,584 | 23,467 | 24,598 | 23,458 |

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| | | | | |
|---|---------|---------|---------|---------|
| Dividends declared per common share | \$0.075 | \$0.075 | \$0.15 | \$0.15 |
| (i) Stock-based compensation included in selling, general and administrative expenses | \$1,257 | \$1,141 | \$2,605 | \$2,379 |

See accompanying notes to consolidated financial statements.

GENIE ENERGY LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2018 | |
|---|---|-------------|---|------------|
| | 2017 | | 2017 | |
| | (in thousands) | | | |
| Net (loss) income | \$ (2,494) | \$ (12,950) | \$ 3,367 | \$ (8,810) |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | (397) | 440 | (338) | 882 |
| Comprehensive (loss) income | (2,891) | (12,510) | 3,029 | (7,928) |
| Comprehensive loss attributable to noncontrolling interests | 313 | 560 | 564 | 1,261 |
| Comprehensive (loss) income attributable to Genie Energy Ltd. | \$ (2,578) | \$ (11,950) | \$ 3,593 | \$ (6,667) |

See accompanying notes to consolidated financial statements.

GENIE ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months Ended June 30, | |
|--|--------------------------------------|-------------|
| | 2018 | 2017 |
| | (in thousands) | |
| Operating activities | | |
| Net income (loss) | \$3,367 | \$(8,810) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,183 | 1,041 |
| Write-down of assets held for sale to fair value | 2,291 | — |
| Deferred income taxes | 113 | (543) |
| Provision for doubtful accounts receivable | 502 | 186 |
| Gain on sale of property and equipment | (18) | — |
| Stock-based compensation | 2,605 | 1,969 |
| Equity in the net loss of a joint venture | 1,221 | — |
| Change in assets and liabilities: | | |
| Trade accounts receivable | 13,088 | (834) |
| Inventory | (3,779) | 1,271 |
| Prepaid expenses | (7) | (2,401) |
| Other current assets and other assets | 120 | (3,796) |
| Trade accounts payable, accrued expenses and other current liabilities | (7,639) | 10,124 |
| Due to IDT Corporation | (74) | 60 |
| Income taxes payable | (904) | (1,740) |
| Net cash provided by (used in) operating activities | 12,069 | (3,473) |
| Investing activities | | |
| Capital expenditures | (370) | (2,876) |
| Proceeds from sale of property and equipment | 62 | — |
| Payments for acquisitions | (745) | — |
| Investments in capitalized exploration costs—unproved oil and gas property | — | (3,311) |
| Deposit for investment | — | (94) |
| Repayment of notes receivable | 54 | 446 |
| Net cash used in investing activities | (999) | (5,835) |
| Financing activities | | |
| Dividends paid | (4,483) | (4,440) |
| Purchase of equity of subsidiary | — | (278) |

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| | | |
|--|------------|----------|
| Proceeds from sales of Class B common stock and warrants | 6,000 | — |
| Proceeds from revolving line of credit | — | 14,450 |
| Repayment of revolving line of credit | — | (12,655) |
| Exercise of stock options | — | 109 |
| Repurchases of Class B common stock from employees | — | (23) |
| Net cash provided by (used in) financing activities | 1,517 | (2,837) |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | (77) | 289 |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | 12,510 | (11,856) |
| Cash, cash equivalents, and restricted cash at beginning of period | 31,927 | 47,052 |
| Cash, cash equivalents, and restricted cash at end of period | \$44,437 | \$35,196 |
| Supplemental Schedule of Non-Cash Financing Activities | | |
| Purchase of equity of subsidiary (see Note 9) | \$(4,139) | \$— |

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, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The balance sheet at December 31, 2017 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, 2017, 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 97% of Genie Oil and Gas, Inc. (“GOGAS”). The Company is comprised of GRE, which owns and operates retail energy providers (“REPs”), including IDT Energy, Inc. (“IDT Energy”), Residents Energy, Inc. (“Residents Energy”), Town Square Energy, and Mirabito Natural Gas (“Mirabito”), and also offers energy brokerage and advisory services. Its REP businesses resell electricity and natural gas to residential and small business customers primarily in the Eastern and Midwestern United States. Internationally, GRE has begun serving customers in the United Kingdom through a joint venture and acquired a license to service customers in Japan (see Notes 7 and 8). The Company also includes Genie Oil and Gas, an oil and gas exploration company. GOGAS holds an 86.1% interest in Afek Oil and Gas, Ltd. (“Afek”), an oil and gas exploration project in the Golan Heights in Northern Israel. GOGAS also holds controlling interests in other inactive oil and gas projects. GOGAS also owns Atid Drilling Ltd., a drilling services company operating in Israel (see Note 4).

Seasonality and Weather

The weather and the seasons, among other things, affect GRE’s REPs’ 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 45% and 43% of GRE’s natural gas revenues for the relevant years were generated in the first quarter of 2017 and 2016, 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 30% and 31% of GRE’s electricity revenues for the relevant years were generated in the third quarter of 2017 and 2016, respectively. GRE’s REPs’ 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—Cash, Cash Equivalents, and Restricted Cash

On January 1, 2018, the Company adopted the Accounting Standards Update (“ASU”) related to the classification and presentation of changes in restricted cash in the statement of cash flows. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated balance sheet that equals the total of the same amounts reported in the consolidated statement of cash flows:

| | June 30, | December 31, |
|---|----------------|--------------|
| | 2018 | 2017 |
| | (in thousands) | |
| Cash and cash equivalents | \$43,175 | \$ 29,913 |
| Restricted cash—short-term included in other current assets | 278 | 518 |
| Restricted cash—long-term | 984 | 1,496 |
| Total cash, cash equivalents, and restricted cash | \$44,437 | \$ 31,927 |

Restricted cash—short-term includes amounts set aside in accordance with the Amended and Restated Preferred Supplier Agreement with BP Energy Company (“BP”) (see Note 16), and a security deposit for land in western Colorado leased from the U.S. Bureau of Land Management. Restricted cash—long-term includes Afek’s security deposits for its exploration license from the Government of Israel, and its customs and other import duties for the import of exploration equipment.

Note 3—Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and has since issued amendments thereto (collectively referred to as “ASC 606”). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and the guidance defines a five-step process to achieve this core principle. ASC 606 also mandates additional disclosure about the nature, amount, timing and uncertainty of revenues and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

The Company adopted ASC 606 as of January 1, 2018, using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. Results for the reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period results are not adjusted and continue to be reported in accordance with its historic accounting under ASC Topic 605. The Company determined that the new standard did not have any impact on revenue recognition and measurement in its consolidated financial statements. Variable quantities in requirements contracts are considered to be options for additional goods and services because the customer has a current contractual right to choose the amount of additional distinct goods. Revenue from the single performance obligation to deliver a unit of electricity and/or natural gas is recognized as the customer simultaneously receives and consumes the benefit. Utility companies offer purchase of receivable, or POR, programs in most of the service territories in which the Company operates. GRE’s REPs participate in POR programs for a majority of their receivables. The Company estimates variable consideration related to its rebate programs using the expected value method and a portfolio approach. The Company’s estimates related to rebate programs are based on the terms of the rebate program, the customer’s historical electricity and natural gas consumption, the customer’s rate plan, and a churn factor. Taxes that are imposed on the Company’s sales and collected from customers are excluded from the transaction price.

Practical Expedients

The Company’s performance obligations are generally part of contracts for which the estimated customer relationship periods are currently less than one year. Therefore, in accordance with ASC 606, the Company generally expenses sales commissions to acquire customers when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses. The Company continuously monitors its customer relationship periods to ensure compliance with the application of the practical expedient.

Disaggregated Revenues

The following table shows the Company's revenues disaggregated by pricing plans offered to customers:

| (in thousands) | Electricity | Natural Gas | Other | Total |
|----------------------------------|-------------|-------------|----------|------------|
| Three Months Ended June 30, 2018 | | | | |
| Fixed rate | \$ 12,944 | \$ 497 | \$— | \$ 13,441 |
| Variable rate | 35,570 | 6,865 | — | 42,435 |
| Other | — | — | 557 | 557 |
| Total | \$ 48,514 | \$ 7,362 | \$ 557 | \$ 56,433 |
| Three Months Ended June 30, 2017 | | | | |
| Fixed rate | \$ 12,257 | \$ 41 | \$— | \$ 12,298 |
| Variable rate | 32,223 | 5,277 | — | 37,500 |
| Other | — | — | 449 | 449 |
| Total | \$ 44,480 | \$ 5,318 | \$ 449 | \$ 50,247 |
| Six Months Ended June 30, 2018 | | | | |
| Fixed rate | \$ 34,277 | \$ 2,297 | \$— | \$ 36,574 |
| Variable rate | 79,572 | 28,494 | — | 108,066 |
| Other | — | — | 1,062 | 1,062 |
| Total | \$ 113,849 | \$ 30,791 | \$ 1,062 | \$ 145,702 |
| Six Months Ended June 30, 2017 | | | | |
| Fixed rate | \$ 24,252 | \$ 81 | \$— | \$ 24,333 |
| Variable rate | 73,194 | 23,177 | — | 96,371 |
| Other | — | — | 949 | 949 |
| Total | \$ 97,446 | \$ 23,258 | \$ 949 | \$ 121,653 |

The following table shows the Company's revenues disaggregated by non-commercial and commercial channels:

| (in thousands) | Electricity | Natural Gas | Other | Total |
|----------------------------------|-------------|-------------|---------|-----------|
| Three Months Ended June 30, 2018 | | | | |
| Non-Commercial Channel | \$45,386 | \$6,316 | \$— | \$51,702 |
| Commercial Channel | 3,128 | 1,046 | — | 4,174 |
| Other | — | — | 557 | 557 |
| Total | \$48,514 | \$7,362 | \$557 | \$56,433 |
| Three Months Ended June 30, 2017 | | | | |
| Non-Commercial Channel | \$44,476 | \$5,318 | \$— | \$49,794 |
| Commercial Channel | 4 | — | — | 4 |
| Other | — | — | 449 | 449 |
| Total | \$44,480 | \$5,318 | \$449 | \$50,247 |
| Six Months Ended June 30, 2018 | | | | |
| Non-Commercial Channel | \$108,230 | \$27,698 | \$— | \$135,928 |
| Commercial Channel | 5,619 | 3,093 | — | 8,712 |
| Other | — | — | 1,062 | 1,062 |
| Total | \$113,849 | \$30,791 | \$1,062 | \$145,702 |
| Six Months Ended June 30, 2017 | | | | |
| Non-Commercial Channel | \$97,442 | \$23,258 | \$— | \$120,700 |
| Commercial Channel | 4 | — | — | 4 |
| Other | — | — | 949 | 949 |
| Total | \$97,446 | \$23,258 | \$949 | \$121,653 |

Note 4—Atid Drilling Ltd. Assets and Liabilities Held for Sale

As a result of the Company's decision to suspend its oil and gas exploration drilling activities, in June 2018, the Company initiated a plan to sell primarily all Atid's assets. At June 30, 2018, Atid's assets and liabilities were reported at fair value less cost to sell. In the three months ended June 30, 2018, the Company recorded a \$2.3 million write-down to fair value of Atid's assets held for sale. The Company used the market approach to estimate the fair values of assets and liabilities held for sale. The related inputs were corroborated by observable market data for similar assets and liabilities, therefore the estimated fair values were classified as Level 2 of the fair value hierarchy.

The pending disposition of Atid did not meet the criteria to be reported as a discontinued operation and accordingly, its results of operations and cash flows have not been reclassified. The Atid assets and liabilities held for sale at June 30, 2018 included the following (in thousands):

Current assets held for sale:

| | |
|-----------------------------|------|
| Trade accounts receivable | \$20 |
| Prepaid expenses | 26 |
| Other current assets | 608 |
| Property and equipment, net | 689 |
| Other assets | 30 |

Total included in other current assets \$1,373

Current liabilities held for sale:

| | |
|------------------------|-----|
| Trade accounts payable | \$4 |
| Accrued expenses | 196 |

Total included in other current liabilities \$200

Note 5—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, 2018 | | | | |
| Assets: | | | | |
| Derivative contracts | \$ 1,160 | \$ 447 | \$ — | \$ 1,607 |
| Liabilities: | | | | |
| Derivative contracts | \$ 619 | \$ 142 | \$ — | \$ 761 |
| December 31, 2017 | | | | |
| Assets: | | | | |
| Derivative contracts | \$ 3,091 | \$ 1,267 | \$ — | \$ 4,358 |
| Liabilities: | | | | |
| Derivative contracts | \$ 693 | \$ 535 | \$ — | \$ 1,228 |

(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.

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, other current assets, due to IDT Corporation, and other current liabilities. At June 30, 2018 and December 31, 2017, the carrying amounts of these assets and liabilities approximated fair value. The fair value estimate for restricted cash—short-term and long-term was classified as Level 1 and other current assets, due to IDT Corporation, and other current liabilities were classified as Level 2 of the fair value hierarchy.

Other assets, revolving line of credit, and other liabilities. At June 30, 2018 and December 31, 2017, other assets included an aggregate of \$0.5 million and \$0.6 million, respectively, in notes receivable. The carrying amounts of the notes receivable, revolving line of credit, 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.

Note 6—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, 2018 and December 31, 2017, 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, 2018 was as follows (MWh – Megawatt hour and Dth – Decatherm):

| Commodity | Settlement Dates | Volume |
|-------------|------------------|-------------|
| Electricity | July 2018 | 68,000 MWh |
| Electricity | August 2018 | 136,640 MWh |
| Electricity | September 2018 | 43,840 MWh |
| Electricity | October 2018 | 75,440 MWh |
| Electricity | November 2018 | 68,880 MWh |
| Electricity | December 2018 | 65,600 MWh |
| Electricity | January 2019 | 173,360 MWh |
| Electricity | February 2019 | 157,120 MWh |
| Natural gas | August 2018 | 209,225 Dth |
| Natural gas | September 2018 | 206,000 Dth |
| Natural gas | October 2018 | 109,375 Dth |
| Natural gas | November 2018 | 385,750 Dth |
| Natural gas | December 2018 | 396,400 Dth |
| Natural gas | January 2019 | 476,430 Dth |
| Natural gas | February 2019 | 451,275 Dth |
| Natural gas | March 2019 | 469,725 Dth |
| Natural gas | April 2019 | 33,175 Dth |
| Natural gas | May 2019 | 27,650 Dth |
| Natural gas | June 2019 | 22,225 Dth |
| Natural gas | July 2019 | 17,650 Dth |
| Natural gas | August 2019 | 16,800 Dth |
| Natural gas | September 2019 | 16,300 Dth |
| Natural gas | October 2019 | 15,450 Dth |
| Natural gas | November 2019 | 91,875 Dth |
| Natural gas | December 2019 | 94,425 Dth |
| Natural gas | Calendar 2020 | 92,325 Dth |
| Natural gas | Calendar 2021 | 8,300 Dth |

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

| <u>Asset Derivatives</u> | Balance Sheet Location | June 30, 2018 | December 31, 2017 |
|--|------------------------|---------------|-------------------|
| Derivatives not designated or not qualifying as hedging instruments: | | | |
| Energy contracts and options | Other current assets | \$1,607 | \$ 4,358 |

(in thousands)

Liability Derivatives

Derivatives not designated or not qualifying as hedging instruments:

Energy contracts and options Other current liabilities \$761 \$ 1,228

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

| Derivatives not designated or not qualifying as | Location of Gain (Loss) Recognized on | Amount of Gain (Loss) Recognized on Derivatives | | | |
|--|--|--|-----------|-----------------------------|-----------|
| | | Three Months Ended | | Six Months Ended | |
| | | June 30, | | June 30, | |
| hedging instruments | Derivatives | 2018 | 2017 | 2018 | 2017 |
| | | (in thousands) | | | |
| Energy contracts and options | Cost of revenues | \$532 | \$(1,471) | \$449 | \$(2,719) |

Note 7—Investment in Shoreditch Energy Limited

On July 17, 2017, the Company’s subsidiary, Genie Energy UK Ltd. (“GEUK”), entered into a definitive agreement with Energy Global Investments Pty Ltd (“EGC”) to launch Shoreditch Energy Limited (“Shoreditch”), a joint venture to offer electricity and natural gas service to residential and small business customers in the United Kingdom, using the trade name Orbit Energy. At June 30, 2018, GEUK had contributed \$4.0 million to Shoreditch. In August 2018, the parties agreed to provide additional funding for Shoreditch in September 2018. GEUK is obligated to contribute up to an additional £2.2 million (\$3.0 million at June 30, 2018) in the aggregate, and EGC is obligated to contribute up to an aggregate of £1.7 million (\$2.2 million at June 30, 2018), to Shoreditch.

GEUK owns 65% of the equity of Shoreditch and EGC owns the remaining 35%. EGC has several significant participating rights in the management of Shoreditch that limits GEUK’s ability to direct the activities that most significantly impact Shoreditch’s economic performance. GEUK, therefore, accounts for its ownership interest in Shoreditch using the equity method since GEUK has the ability to exercise significant influence over its operating and financial matters, although it does not control Shoreditch. Shoreditch is a variable interest entity, however, the Company has determined that it is not the primary beneficiary, as the Company does not have the power to direct the activities of Shoreditch that most significantly impact Shoreditch’s economic performance.

The following table summarizes the change in the balance of GEUK’s investment in Shoreditch:

| | Six Months Ended June 30, 2018 | | 2017 |
|--|---|----|------|
| | (in thousands) | | |
| Balance, beginning of period | \$3,450 | \$ | — |
| Capital contributions | — | | — |
| Cumulative foreign currency translation adjustment | (26) | | — |
| Equity in the net loss of Shoreditch | (1,221) | | — |
| Balance, end of period | \$2,203 | \$ | — |

At June 30, 2018, the Company’s maximum exposure to loss as a result of its involvement with Shoreditch was its \$2.2 million investment, since there were no other arrangements, events or circumstances that could expose the Company to additional loss.

Summarized unaudited statements of operations of Shoreditch are as follows:

| | Three Months Ended | | Six Months Ended | |
|-------------------------------------|-------------------------------|------|-----------------------------|------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Revenues | \$215 | \$ — | \$329 | \$ — |
| Operating expenses: | | | | |
| Cost of revenues | 237 | — | 370 | — |
| Selling, general and administrative | 1,004 | — | 1,764 | — |
| Loss from operations | (1,026) | — | (1,805) | — |
| Other | — | — | — | — |
| Net loss | \$(1,026) | \$ — | \$(1,805) | \$ — |

Note 8—Acquisition of Smile Energy G.K.

On June 7, 2018, Genie Japan, LLC (“Genie Japan”), a wholly-owned indirect subsidiary of the Company, acquired 100% of the equity of Smile Energy G.K., (“Smile Energy”) from Capital Sixty, LLC (“Capital Sixty”) and Flower Denryoku (“Flower”). Smile Energy is a Japanese company licensed to provide electricity to end-use customers in Japan. The aggregate purchase price was \$745,000. In addition, Capital Sixty received an option to purchase a 5% membership interest in Genie Japan at an exercise price of \$1. The option is exercisable on the earlier of 18 months from the start of enrolling retail energy customers in Japan or June 7, 2020. At any time before exercise, Genie Japan may cancel the option in exchange for a payment of \$250,000 to Capital Sixty. The estimated fair value of the option on the date of grant was not material.

The Company accounted for the Smile Energy acquisition as an asset acquisition. The aggregate purchase price was recorded as license to operate as a REP in Japan. The carrying value of the license is included in “Other intangibles, net” in the accompanying consolidated balance sheet. The carrying value of the license will be amortized on a straight-line basis over its estimated 10-year life.

Smile Energy entered into a Power Service Agreement with Flower, pursuant to which, Flower will provide certain services to Smile Energy including wholesale power supply and electricity sales service. Smile Energy incurred set-up fees of \$0.4 million for the implementation of the Power Service Agreement. The Power Service Agreement has an initial term of three years. Smile Energy is charging the set-up fees to expense on a straight-line basis over three years.

Note 9—Equity

Changes in the components of equity were as follows:

| | Six Months Ended June 30, 2018 | | |
|--|-----------------------------------|-----------------------------|------------|
| | Attributable to Genie | Noncontrolling Interests | Total |
| | (in thousands) | | |
| Balance, December 31, 2017 | \$84,013 | \$ (16,885 |) \$67,128 |
| Dividends on preferred stock | (740) | — | (740) |
| Dividends on common stock (\$0.15 per share) | (3,743) | — | (3,743) |
| Sales of Class B common stock and warrants | 6,000 | — | 6,000 |
| Purchase of equity of subsidiary | (4,139) | 4,139 | — |
| Stock-based compensation | 2,013 | — | 2,013 |
| Comprehensive income: | | | |
| Net income | 4,237 | (870 |) 3,367 |
| Foreign currency translation adjustments | (644) | 306 | (338) |
| Comprehensive income | 3,593 | (564 |) 3,029 |
| Balance, June 30, 2018 | \$86,997 | \$ (13,310 |) \$73,687 |

Dividend Payments

In the six months ended June 30, 2018 and 2017, 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 25, 2018, 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 2018. The dividend will be paid on or about August 15, 2018 to stockholders of record as of the close of business on August 8, 2018.

In the six months ended June 30, 2018 and 2017, the Company paid aggregate quarterly dividends of \$0.15 per share on its Class A common stock and Class B common stock in the aggregate amount of \$3.7 million. On July 31, 2018, 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 2018. The dividend will be paid on or about August 24, 2018 to stockholders of record as of the close of business on August 15, 2018.

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, 2018 and 2017. At June 30, 2018, 6.9 million shares remained available for repurchase under the stock repurchase program.

Sales of Shares and Warrants

On June 8, 2018, the Company sold to Howard S. Jonas (1) 1,152,074 shares of the Company's Class B common stock, at a price of \$4.34 per share for an aggregate sales price of \$5.0 million, and (2) warrants to purchase an additional 1,048,218 shares of the Company's Class B common stock at an exercise price of \$4.77 per share for an aggregate exercise price of \$5.0 million. The warrants will expire in June 2023. In addition, on June 12, 2018, the Company sold to a third-party investor (1) 230,415 treasury shares of the Company's Class B common stock, at a price of \$4.34 per share for an aggregate sales price of \$1.0 million, and (2) warrants to purchase an additional 209,644 shares of the Company's Class B common stock at an exercise price of \$4.77 per share for an aggregate exercise price of \$1.0 million.

Purchase of Equity of Subsidiary

In June 2018, an entity affiliated with Lord (Jacob) Rothschild exercised its option to exchange its 5% equity interest in GOGAS for 41,667 shares of the Company's Class B common stock. The fair value of the shares of Class B common stock at the time of the exchange was \$0.22 million. The Company's ownership of GOGAS increased from 92% to 97% upon the completion of the exchange.

Stock-Based Compensation

On May 7, 2018, the Company's stockholders approved an amendment to the Company's 2011 Stock Option and Incentive Plan to reserve an additional 974,199 shares of the Company's Class B common stock for issuance thereunder.

Also, on May 7, 2018, the Company's stockholders approved a grant of options to Howard S. Jonas to purchase 256,818 shares of the Company's Class B common stock at an exercise price of \$4.34 per share in lieu of a cash bonus of \$0.3 million. These options vest in five equal annual installments beginning on February 15, 2019.

Also, on May 7, 2018, Michael M. Stein, the Company's Chief Executive Officer, was granted 157,344 restricted shares of the Company's Class B common stock. These restricted shares vest in three equal annual installments beginning on November 1, 2018. The fair value of the restricted shares on the date of grant was \$0.9 million, which is being recognized on a straight-line basis over the vesting period.

Note 10— Concentrations and Associated Credit Risk

The Company holds cash, cash equivalents, and restricted cash at several major financial institutions, which may exceed FDIC insured limits. Historically, the Company has not experienced any losses due to such concentration of credit risk. The Company's temporary cash investments policy is to limit the dollar amount of investments with any one financial institution and monitor the credit ratings of those institutions. While the Company may be exposed to credit losses due to the nonperformance of the holders of its deposits, the Company does not expect the settlement of these transactions to have a material effect on its results of operations, cash flows or financial condition.

Utility companies offer purchase of receivable programs in most of the service territories in which GRE's REPs operate. GRE's REPs reduce their customer credit risk by participating in POR programs for a majority of their receivables. In addition to providing billing and collection services, utility companies purchase those REPs' receivables and assume all credit risk without recourse to those REPs. GRE's REPs' primary credit risk is therefore nonpayment by the utility companies. Certain of the utility companies represent significant portions of GRE's REPs' revenues and gross trade accounts receivable balance and such concentrations increase the risk associated with nonpayment by those utility companies.

The following table summarizes the percentage of consolidated revenues from customers by utility company that equal or exceed 10% of the Company's consolidated revenues in the period (no other single utility company accounted for more than 10% of consolidated revenues in these periods):

| | Six Months Ended June 30, 2018 2017 | |
|------------|--|------|
| Con Edison | 11 % | 15 % |
| ComEd | na | 11 % |

na-less than 10% of consolidated revenue in the period

The following table summarizes the percentage of consolidated gross trade accounts receivable by utility company that equal or exceed 10% of consolidated gross trade accounts receivable at June 30, 2018 and December 31, 2017 (no other single utility company accounted for 10% or greater of our consolidated gross trade accounts receivable at June 30, 2018 or December 31, 2017):

| | June 30, 2018 | December 31, 2017 | |
|------------|------------------------------|------------------------------|---|
| Con Edison | 12 % | 11 | % |

Note 11—Variable Interest Entity

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 repaid to (provided by) the Company were as follows:

| | Three Months Ended | | Six Months Ended | |
|--|-----------------------------------|----------|-----------------------------|----------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Net loss | \$ (253) | \$ (136) | \$ (520) | \$ (333) |
| Aggregate funding repaid to (provided by) the Company, net | \$ 152 | \$ (42) | \$ 57 | \$ 29 |

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

| | June 30, 2018 | December 31, 2017 |
|---|---------------------|----------------------|
| | (in thousands) | |
| Assets | | |
| Cash and cash equivalents | \$ 44 | \$ 52 |
| Restricted cash | 9 | 31 |
| Trade accounts receivable | 544 | 1,031 |
| Prepaid expenses | 366 | 451 |
| Other current assets | 23 | 31 |
| Other assets | 359 | 439 |
| Total assets | \$ 1,345 | \$ 2,035 |
| Liabilities and noncontrolling interests | | |
| Current liabilities | \$ 585 | \$ 698 |
| Due to IDT Energy | 1,083 | 1,140 |
| Noncontrolling interests | (323) | 197 |
| Total liabilities and noncontrolling interests | \$ 1,345 | \$ 2,035 |

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 12 — The Tax Cuts and Jobs Act

On December 22, 2017, the U.S. government enacted “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018”, which is commonly referred to as “The Tax Cuts and Jobs Act” (the “Tax Act”). The Tax Act provides for comprehensive tax legislation that, among other things, reduces the U.S. federal statutory corporate tax rate from 35.0% to 21.0% effective January 1, 2018, broadens the U.S. federal income tax base, requires companies to pay a one-time repatriation tax on earnings of certain foreign subsidiaries that were previously tax deferred (“transition tax”), and creates new taxes on certain foreign sourced earnings.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”), expressing its views regarding the FASB Accounting Standards Codification 740, *Income Taxes*, in the reporting period that includes the enactment date of the Tax Act. SAB 118 recognizes that a registrant’s review of certain income tax effects of the Tax Act may be incomplete at the time financial statements are issued for the reporting period that includes the enactment date, including interim periods therein. Specifically, SAB 118 allows a company to report provisional estimates in the reporting period that includes the enactment date if the company does not have the necessary information available, prepared, or fully analyzed for certain income tax effects of the Tax Act. The provisional estimates would be adjusted during a measurement period not to exceed 12 months from the enactment date of the Tax Act, at which time the accounting for the income tax effects of the Tax Act is required to be completed.

The Company has not completed its accounting for the income tax effects of the enactment of the Tax Act; however, at December 31, 2017, the Company made a reasonable estimate of the effect on its existing deferred tax assets and corresponding valuation allowance.

The transition tax is based on total post-1986 earnings and profits which were previously deferred from U.S. income taxes. At June 30, 2018, the Company did not have any undistributed earnings of its foreign subsidiaries. As a result, no additional income or withholding taxes have been provided for, for the undistributed earnings or any additional outside basis differences inherent in the foreign entities. The Company continues to review the anticipated impacts of the global intangible low taxed income (“GILTI”) and base erosion anti-abuse tax (“BEAT”). The Company has not recorded any impact associated with either GILTI or BEAT, nor does it expect to have to.

The Company anticipates that its assumptions and estimates may change as a result of future guidance and interpretation from the Internal Revenue Service, the SEC, the FASB, and various other taxing jurisdictions. In particular, the Company anticipates that the U.S. state jurisdictions will continue to determine and announce their conformity with or decoupling from the Tax Act, either in its entirety or with respect to specific provisions. Legislative and interpretive actions could result in adjustments to the Company's provisional estimates when the accounting for the income tax effects of the Tax Act is completed. The Company will continue to evaluate the impact of the Tax Act on its financial statements, and will record the effect of any reasonable changes in its estimates and adjustments.

Note 13—(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:

| | Three Months Ended | | Six Months Ended | |
|--|-------------------------------|--------|-----------------------------|--------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Basic weighted-average number of shares | 24,584 | 23,467 | 24,440 | 23,458 |
| Effect of dilutive securities: | | | | |
| Stock options and warrants | — | — | 10 | — |
| Non-vested restricted Class B common stock | — | — | 148 | — |
| Diluted weighted-average number of shares | 24,584 | 23,467 | 24,598 | 23,458 |

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

| | Three Months | Six Months Ended |
|--|-------------------------|-----------------------------|
|--|-------------------------|-----------------------------|

| | Ended | | June 30, | |
|--|-----------------|-------|-----------------|-------|
| | June 30, | | | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Stock options and warrants | 1,855 | 384 | 361 | 384 |
| Non-vested restricted Class B common stock | 762 | 1,206 | — | 1,206 |
| Shares excluded from the calculation of diluted earnings per share | 2,617 | 1,590 | 361 | 1,590 |

In the three months ended June 30, 2018, and 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 warrants, and the vesting of restricted stock would have been anti-dilutive. In the six months ended June 30, 2018, stock options with an exercise price that was greater than the average market price of the Company's stock during the period were excluded from the diluted loss per share computation.

Employees and directors of the Company that were previously granted restricted stock of Afek and Genie Mongolia, Inc. have the right to exchange the restricted stock, upon vesting of such shares, into shares of the Company's Class B common stock. These exchanges, if elected, would be based on the relative fair value of the shares exchanged. 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 14—Related Party Transactions

On June 8, 2018, the Company sold shares of its Class B common stock and warrants to purchase shares of its Class B common stock to Howard S. Jonas (see Note 9).

The Company was formerly a subsidiary of IDT Corporation ("IDT"). On October 28, 2011, the Company was spun-off by IDT. 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. Also, the Company provides specified administrative services to certain of IDT's foreign subsidiaries.

On March 26, 2018, IDT completed a pro rata distribution of the common stock that IDT held in IDT’s subsidiary, Rafael Holdings, Inc. (“Rafael”) to IDT’s stockholders. Howard S. Jonas is the Chairman of the Board of Directors and the Chief Executive Officer of Rafael. The Company leases office space and parking in Rafael’s building and parking garage located at 520 Broad St, Newark, NJ. The Company also leases office space in Israel from Rafael. The leases expire in April 2025.

The charges for services provided by IDT to the Company, and rent charged by Rafael, net of the charges for the services provided by the Company to IDT, are included in “Selling, general and administrative” expense in the consolidated statements of operations.

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|-----------------------------------|-------|-----------------------------|-------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Amount IDT charged the Company | \$380 | \$495 | \$696 | \$872 |
| Amount the Company charged IDT | \$107 | \$121 | \$228 | \$230 |
| Amount Rafael charged the Company | \$54 | \$— | \$54 | \$— |

Note 15—Business Segment Information

The Company owns 99.3% of its subsidiary, GEIC, which owns 100% of GRE and 97% of GOGAS. The Company has three reportable business segments: GRE, Afek and GOGAS. GRE owns and operates REPs, including IDT Energy, Residents Energy, Town Square Energy, and Mirabito, and also offers energy brokerage and advisory services. Its REP businesses resell electricity and natural gas to residential and small business customers primarily in the Eastern and Midwestern United States. Internationally, GRE has begun serving customers in the United Kingdom through a joint venture and acquired a license to service customers in Japan. GRE’s international operations have not been material to date. The Afek segment is comprised of the Company’s 86.1% interest in Afek, an oil and gas exploration project in the Golan Heights in Northern Israel. The GOGAS segment is comprised of inactive oil shale projects. GOGAS also owns Atid Drilling Ltd., a drilling services company operating in Israel. 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.

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, 2018 | | | | | |
| Revenues | \$56,433 | \$— | \$— | \$— | \$56,433 |
| Income (loss) from operations | 3,268 | (216) | (3,156) | (2,217) | (2,321) |
| Write-down of assets held for sale to fair value | — | — | 2,291 | — | 2,291 |
| Exploration | — | 17 | — | — | 17 |
| Equity in the net loss of joint venture | 716 | — | — | — | 716 |
| Three Months Ended June 30, 2017 | | | | | |
| Revenues | \$50,247 | \$— | \$— | \$— | \$50,247 |
| Loss from operations | (9,394) | (1,316) | (95) | (2,764) | (13,569) |
| Exploration | — | 952 | — | — | 952 |
| Six Months Ended June 30, 2018 | | | | | |
| Revenues | \$145,702 | \$— | \$— | \$— | \$145,702 |
| Income (loss) from operations | 13,618 | (487) | (4,246) | (4,577) | 4,308 |
| Write-down of assets held for sale to fair value | — | — | 2,291 | — | 2,291 |
| Exploration | — | 244 | — | — | 244 |
| Equity in the net loss of joint venture | 1,221 | — | — | — | 1,221 |
| 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 |

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

| (in thousands) | GRE | Afek | GOGAS | Corporate | Total |
|-------------------|-----------|---------|---------|-----------|-----------|
| Total assets: | | | | | |
| June 30, 2018 | \$116,794 | \$1,019 | \$5,106 | \$1,466 | \$124,385 |
| December 31, 2017 | 112,521 | 2,588 | 7,887 | 2,782 | 125,778 |

Note 16—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. The parties participated in mediation, and subsequently entered into a Settlement Agreement (discussed below). On July 31, 2018, the Magistrate Court issued a report that recommended approval of the settlement. The Settlement Agreement is subject to entry of a final order by the Court approving the Settlement Agreement.

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"). The parties participated in mediation, and subsequently entered into a Settlement Agreement (discussed below). On July 31, 2018, the Magistrate Court issued a report that recommended approval of the settlement. The Settlement Agreement is subject to entry of a final order by the Court approving the Settlement Agreement.

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 participated in mediation, and subsequently entered into a Settlement Agreement (discussed below). On July 31, 2018, the Magistrate Court issued a report that recommended approval of the settlement. The Settlement Agreement is subject to entry of a final order by the Court approving the Settlement Agreement.

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 filed 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 the 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 have been 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. In 2017, the Company estimated, based in part on historical participation rates, that its total settlement payment would be approximately \$9.0 million. In the second quarter of 2017, the Company recorded a liability of \$9.0 million for the settlement payment. The period for class members to make claims has since expired, and in 2018, based on the claims received and related administrative costs, the Company estimated that the total settlement payment will be approximately \$7.6 million. In the six months ended June 30, 2018, the Company reduced the liability for the settlement payment by \$1.4 million, reversed \$1.7 million of the revenue reduction recorded in 2017, and recorded expense of \$0.3 million that is included in "Selling, general and administrative expense". On July 31, 2018, the Magistrate Court issued a report that recommended approval of the settlement. The Settlement Agreement is subject to entry of a final order by the Court approving the Settlement Agreement.

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. On May 22, 2018, IDT Energy entered into a Consent Order with the New Jersey Attorney General and the New Jersey Board of Public Utilities to resolve an investigation related to IDT Energy's pricing and business practices during the winter of 2014. Under the terms of the Consent Order, IDT Energy agreed to make payments totaling \$1.4 million, including \$1.2 million in restitution to consumers who received electricity and/or natural gas supply from IDT Energy in January, February and/or 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. IDT Energy has made full payment of the amount agreed upon in the Consent Order to a settlement administrator, who will process the restitution payments. In the third quarter of 2017, the Company accrued \$1.5 million for this investigation.

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 Proceedings

In December 2017, the New York Public Service Commission ("PSC") held an evidentiary hearing to assess the retail energy market in New York. The parties recently completed post-hearing briefing in the proceedings. The Company is

evaluating the potential impact of any new order from the PSC that may follow from the evidentiary process, while preparing various contingencies for operation 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's REPs in New York. As of June 30, 2018, New York represented 31% of GRE's total meters served and 23% of the total residential customer equivalents ("RCEs") of GRE's customer base.

On December 16, 2016, the PSC issued an order (the "2016 Order") prohibiting REP service to customers enrolled in New York's utility low-income assistance programs. Temporary stays of the 2016 Order expired, and REPs were required to return service of their low-income customers to the relevant local incumbent utility on the modified schedule set forth in the PSC's 2016 Order. The 2016 Order required GRE's REPs to transfer customer accounts comprising approximately 18,700 meters, representing approximately 10,600 RCEs, to their respective incumbent utilities in the three months ended March 31, 2018.

On March 27, 2018, the New York Court of Appeals granted Motions for Leave to Appeal the question of whether the Legislature ever imparted to the PSC the authority to regulate the rates that private, non-monopoly REPs charge their customers. The Court of Appeals is now set to review a 2017 decision entered by the Appellate Division, Third Department, concerning the issue of the scope of the PSC's authority over REPs under the Public Service Law, and to pronounce New York law on that issue. A briefing schedule was put in place, and the appeal is currently scheduled to be heard sometime after November 2018.

Purchase Commitments

The Company had purchase commitments of \$55.7 million at June 30, 2018, of which \$53.7 million was for future purchases of electricity. The purchase commitments outstanding at June 30, 2018 are expected to be paid as follows: \$43.0 million in the twelve months ending June 30, 2019, and \$12.7 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, 2018, GRE had commitments to purchase renewable energy credits of \$25.9 million.

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. At June 30, 2018, GRE had aggregate performance bonds of \$12.4 million outstanding.

BP Energy Company Preferred Supplier Agreement

As of November 19, 2015, certain of GRE's REPs entered into an Amended and Restated Preferred Supplier Agreement with BP, which was amended as of June 7, 2018. The agreement's termination date is November 30, 2021, except any party may terminate the agreement on November 30, 2020 by giving the other parties notice by May 31, 2019. Under the agreement, the REPs purchase electricity and natural gas at market rate plus a fee. The obligations to BP are secured by a first security interest in deposits or receivables from utilities in connection with their purchase of the REPs' customer's receivables, and in any cash deposits or letters of credit posted in connection with any collateral accounts with BP. In addition, the REPs must pay an advance payment of \$2.0 million to BP each month that BP will apply to the next invoiced amount due to BP. The 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, 2018, the Company was in compliance with such covenants. At June 30, 2018, restricted cash—short-term of \$0.3 million and trade accounts receivable of \$22.7 million were pledged to BP as collateral for the payment of trade accounts payable to BP of \$9.4 million at June 30, 2018.

Note 17—Revolving Line 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 for a \$20 million revolving loan facility. The borrowers consist of the Company's subsidiaries that operate REP businesses, and those subsidiaries' obligations are guaranteed by GRE. 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. The 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, 2018 and December 31, 2017, \$2.5 million was outstanding under the revolving line of credit. At June 30, 2018 and December 31, 2017, the effective interest rate was 6.87% and 5.99% per annum, respectively. 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.

Note 18—Recently Issued Accounting Standards Not Yet Adopted

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, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except the losses will be recognized as allowances instead of reductions in the amortized cost of the securities. In addition, an entity will have to disclose significantly more information about allowances, credit quality indicators and past due securities. The new provisions will be applied as a cumulative-effect adjustment to retained earnings. The Company will adopt the new standard on January 1, 2020. The Company is evaluating the impact that the new standard will have on its consolidated financial statements.

In August 2017, the FASB issued an ASU intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. In addition, the ASU includes certain targeted improvements to simplify the application of hedge accounting guidance in U.S. GAAP. The amendments in this ASU are effective for the Company on January 1, 2019. Early application is permitted. Entities will apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements will be applied prospectively. The Company is evaluating the impact that this ASU will have on its consolidated financial statements.

In June 2018, the FASB issued an ASU to simplify several aspects of the accounting for nonemployee share-based payment transactions by expanding the scope of Topic 718, *Compensation—Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers*. The amendments in this ASU are effective for the Company on January 1, 2019. The Company is evaluating the impact that this ASU will have on its consolidated financial statements.

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

The following information should be read in conjunction with the accompanying consolidated financial statements and the associated notes thereto of this Quarterly Report, and the audited consolidated financial statements and the notes thereto and our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the U.S. Securities and Exchange Commission (or SEC).

As used below, unless the context otherwise requires, the terms "the Company," "Genie," "we," "us," and "our" refer to Genie Energy Ltd., a Delaware corporation, and its subsidiaries, collectively.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that contain the words "believes," "anticipates," "expects," "plans," "intends," and similar words and phrases. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results projected in any forward-looking statement. In addition to the factors specifically noted in the forward-looking statements, other important factors, risks and uncertainties that could result in those differences include, but are not limited to, those discussed under Item 1A to Part I "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017. The forward-looking statements are made as of the date of this report and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Investors should consult all of the information set forth in this report and the other information set forth from time to time in our reports filed with the SEC pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, including our Annual Report on Form 10-K for the year ended December 31, 2017.

Overview

We own 99.3% of our subsidiary, Genie Energy International Corporation, or GEIC, which owns 100% of Genie Retail Energy, or GRE, and 97% of Genie Oil and Gas, Inc., or GOGAS. We are comprised of GRE, which owns and operates retail energy providers, or REPs, including IDT Energy, Inc., or IDT Energy, Residents Energy, Inc., or Residents Energy, Town Square Energy, or TSE, and Mirabito Natural Gas, or Mirabito, and also offers energy brokerage and advisory services through its Genie Retail Energy Services and Diversegy divisions. Its REP businesses resell electricity and natural gas to residential and small business customers primarily in the Eastern and Midwestern United States. Internationally, GRE has begun serving customers in the United Kingdom through a joint venture and acquired a license to service customers in Japan. We also include Genie Oil and Gas, or GOGAS, an oil and gas

exploration company. GOGAS holds an 86.1% interest in Afek Oil and Gas, Ltd., or Afek, an oil and gas exploration project in the Golan Heights in Northern Israel. GOGAS also holds controlling interests in other inactive oil and gas projects. GOGAS also owns Atid Drilling Ltd., or Atid, a drilling services company operating in Israel that is currently held for sale.

As part of our ongoing business development efforts, we continuously seek out new opportunities, which may include complementary operations or businesses that reflect horizontal or vertical expansion from our current operations. Some of these potential opportunities are considered briefly and others are examined in further depth. In particular, we seek out acquisitions to expand the geographic scope and size of our REP businesses.

Genie Retail Energy

Seasonality and Weather

The weather and the seasons, among other things, affect GRE's REPs' 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 effects. 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 45% and 43% of GRE's REPs' natural gas revenues for the relevant years were generated in the first quarter of 2017 and 2016, 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 30% and 31% of GRE's REPs' electricity revenues for the relevant years were generated in the third quarter of 2017 and 2016, respectively. Our 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.

Concentration of Customers and Associated Credit Risk

Utility companies offer purchase of receivable, or POR, programs in most of the service territories in which we operate. GRE's REPs reduce their customer credit risk by participating in POR programs for a majority of their receivables. In addition to providing billing and collection services, utility companies purchase those REPs' receivables and assume all credit risk without recourse to those REPs. GRE's REPs' primary credit risk is therefore nonpayment by the utility companies. Certain of the utility companies represent significant portions of our consolidated revenues and consolidated gross trade accounts receivable balance and such concentratio