AMARIN CORP PLC\UK
Form 8-K
April 04, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): April 4, 2018

Amarin Corporation plc

(Exact name of registrant as specified in its charter)

England and Wales	**0-21392**	**Not applicable**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**
2 Pembroke House, Upper Pembroke Street 28-32, Dublin 2, Ireland		**Not applicable**

(Address of principal executive offices) **(Zip Code)**
Registrant s telephone number, including area code: +353 1 6699 020

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

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.

Item 2.02. Results of Operations and Financial Condition.

On April 4, 2018, Amarin Corporation plc, or the Company, issued a press release titled Amarin Updates First Quarter Revenue Guidance, Reiterates Full Year Guidance and Updates on REDUCE-IT Cardiovascular Outcomes Study Progress and Vascepa® Promotion Initiatives providing an update on its financial results for the first quarter of 2018. A copy of the Company s press release is furnished herewith as Exhibit 99.1.

The information set forth under Item 2.02 and in Exhibit 99.1 is intended to be furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 8.01. Other Events.

On April 4, 2018, the Company issued a press release titled Amarin s REDUCE-IT Cardiovascular Outcomes Study Reaches 100% Mark for Estimated Onset of Target Primary Major Adverse Cardiovascular Events. A copy of the Company s press release is filed herewith as Exhibit 99.2.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	**Description**
99.1	Press Release, dated April 4, 2018, titled Amarin Updates First Quarter Revenue Guidance, Reiterates Full Year Guidance and Updates on REDUCE-IT Cardiovascular Outcomes Study Progress and Vascepa® Promotion Initiatives
99.2	Press Release, dated April 4, 2018, titled Amarin s REDUCE-IT Cardiovascular Outcomes Study Reaches 100% Mark for Estimated Onset of Target Primary Major Adverse Cardiovascular Events

*   *   *

SIGNATURES

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

Date: April 4, 2018

Amarin Corporation plc

By: /s/ John Thero
John Thero

President and Chief Executive Officer

Exhibit Index

Exhibit No.	**Description**
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99.2	Press Release, dated April 4, 2018, titled Amarin s REDUCE-IT Cardiovascular Outcomes Study Reaches 100% Mark for Estimated Onset of Target Primary Major Adverse Cardiovascular Events

E= "line-height: normal; padding-bottom: 3px !important; mso-style-name: Tbody_rightalign; margin: 0in; margin-bottom: .0001pt; text-align: right; text-autospace: none; font-size: 10.0pt; font-family: TimesNewRomanPSStd-Regular; color: black;">

1,912

Subsidiary equity grant reclassified to liability

—

—

—

—

—

—

(1,200

)

—

—

—

—

—

(1,200

)

Payment for option to purchase noncontrolling interests

—

—

—

—

—

—

—

—

—

—

(175

)

—

(175

)

Other comprehensive income

—

—

—

—

—

—

—

—

144

—

(2

)

—

142

Net loss for the year ended December 31, 2015

—

—

—

—

—

—

—

—

—

(7,457

)

(1,179

)

—

(8,636

)

BALANCE AT DECEMBER 31, 2015

2,322

$

19,743

1,574

$

16

23,239

$

232

$

124,449

$

(1,570

)

$

154

$

(19,647

)

$

(7,013

)

$

(1,667

)

$

114,697

See accompanying notes to consolidated financial statements.

F-7

GENIE ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Year ended December 31, 2015	2014	2013
OPERATING ACTIVITIES			
Net loss	**$ (8,636)**	$ (27,407)	$ (5,341)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation	**428**	132	110
Goodwill impairment	—	3,562	—
Gain on adjustment to estimated contingent payments	**—**	(206)	—
Deferred income taxes	**(180)**	(622)	(241)
Provision for doubtful accounts receivable	**(29)**	310	800
Stock-based compensation	**5,229**	10,758	4,180
Loss on disposal of property	**156**	—	37
Equity in the net loss of AMSO, LLC	**397**	—	3,194
Change in assets and liabilities, net of effect of acquisitions:			
Restricted cash	**(1,062)**	3,923	(4,713)
Trade accounts receivable	**4,234**	11,189	(2,679)
Inventory	**(274)**	(7,822)	(700)
Prepaid expenses	**(5,615)**	(2,306)	(93)
Other current assets and other assets	**(2,346)**	(2,664)	(243)
Trade accounts payable, accrued expenses and other current liabilities	**3,689**	(5,718)	6,883
Advances from customers	**652**	(700)	(746)
Due to IDT Corporation	**(104)**	1	(59)
Income taxes payable	**380**	(1,532)	831
Net cash (used in) provided by operating activities	**(3,081)**	(19,102)	1,220
INVESTING ACTIVITIES			
Capital expenditures	**(324)**	(1,437)	(313)
Investments in capitalized exploration costs – unproved oil and gas property	**(26,969)**	—	—
Capital contributions to AMSO, LLC	**(250)**	—	(2,700)
Payment for acquisitions, net of cash acquired	—	—	(772)
Repayment of notes receivable	**50**	—	—
Issuance of notes receivable	—	(82)	(750)
Purchases of certificates of deposit	**(8,820)**	(4,655)	(4,329)
Proceeds from maturities of certificates of deposit	**4,688**	4,334	2,205
Purchases of marketable securities	**—**	—	(3)
Proceeds from maturities of marketable securities	**—**	—	10,433
Net cash (used in) provided by investing activities	**(31,625)**	(1,840)	3,771
FINANCING ACTIVITIES			
Dividends paid	**(4,431)**	(2,825)	(1,131)
Payment for acquisitions	**(358)**	(1,138)	—
Proceeds from revolving credit loan payable	**2,000**	—	—
Proceeds from sales of Class B common stock to Howard S. Jonas	**—**	24,552	—
Distributions to noncontrolling interests	**—**	—	(42)
Proceeds from sales of equity of subsidiaries	**2,500**	—	422

Proceeds from exercise of stock options	**174**	28	93
Collection of receivables for issuance of equity	**1,912**	—	—
Payment for option to purchase noncontrolling interests	**(175)**	—	—
Repurchases of Class B common stock	**(27)**	(1,070)	(269)
Net cash provided by (used in) financing activities	**1,595**	19,547	(927)
Effect of exchange rate changes on cash and cash equivalents	**2**	(595)	412
Net (decrease) increase in cash and cash equivalents	**(33,109)**	(1,990)	4,476
Cash and cash equivalents at beginning of period	**71,895**	73,885	69,409
Cash and cash equivalents at end of period	**$ 38,786**	$ 71,895	$ 73,885
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash payments made for interest	**$ 10**	$ 3	$ 12
Cash payments made for income taxes	**$ 49**	$ 2,647	$ 2,069
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES			
Subsidiary equity grant reclassified to liability	**$ 1,200**	$ —	$ —
Receivables for issuance of equity of subsidiaries	**$ 2,500**	$ —	$ —
Liabilities incurred for acquisitions	**$ —**	$ —	$ 2,475

See accompanying notes to consolidated financial statements.

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of Business and Summary of Significant Accounting Policies

Description of Business

Genie Energy Ltd. (“Genie”), a Delaware corporation, was incorporated in January 2011. Genie 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” in these financial statements refers to Genie, Genie Retail Energy and Genie Oil and Gas, and their respective subsidiaries, on a consolidated basis.

Genie’s principal businesses consist of the following:

• Genie Retail Energy operates retail energy providers (“REPs”), including IDT Energy, Inc. (“IDT Energy”) and Residents Energy, Inc. (“Residents 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 86.5% interest in Afek Oil and Gas, Ltd. (“Afek”), which operates an exploration project in the Golan Heights in Northern Israel, and

• early stage projects including (1) an 88.4% interest in Genie Mongolia, Inc. (“Genie Mongolia”), an oil shale exploration project in Central Mongolia, which is inactive (2) a 98.3% interest in American Shale Oil Corporation (“AMSO”), which holds and manages a 41.3% interest in American Shale Oil, L.L.C. (“AMSO, LLC”), an oil shale development project in Colorado, and (3) an 86.1% interest in Israel Energy Initiatives, Ltd. (“IEI”), an oil shale development project in Israel, which is inactive.

GRE has outstanding deferred stock units granted to directors and employees that represent an interest of 3.9% of the equity of GRE.

On February 1, 2016, Israel’s Northern District Planning and Building Committee approved a two-year permit extension for Afek to continue to conduct its up to ten-well oil and gas exploration program. The original permit was for a one-year period, which commenced in February 2015. This extension is expected to cover the remainder of Afek’s ongoing exploratory program in the area covered by it exploratory license issued by Israel’s National Infrastructure, Energy and Water Ministry. The exploratory license is set to expire in April 2016, the Company is taking the required steps to seek an extension of this license.

The Company was formerly a subsidiary of IDT Corporation (“IDT”). On October 28, 2011, the Company was spun-off by IDT and became an independent public company through a pro rata distribution of the Company’s common stock to IDT’s stockholders (the “Spin-Off”).

Basis of Consolidation

The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which the Company is the primary beneficiary. The consolidated financial statements include the Company’s controlled subsidiaries and variable interest entities where the Company is the primary beneficiary (see Note 11). All significant intercompany accounts and transactions between the consolidated entities are eliminated.

Accounting for Investments

Investments in businesses that the Company does not control, but in which the Company has the ability to exercise significant influence over operating and financial matters, are accounted for using the equity method. The Company's

F-9

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of Business and Summary of Significant Accounting Policies – (Continued)

investment in AMSO, LLC is accounted for using the equity method. The Company periodically evaluates its equity method investment for impairment due to declines considered to be other than temporary. If the Company determines that a decline in fair value is other than temporary, then a charge to earnings would be recorded, and a new basis in the investment is established.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Revenue Recognition

Revenues from GRE's sale of electricity and natural gas are recognized under the accrual method based on deliveries of electricity and natural gas to customers. Revenues from electricity and natural gas delivered but not yet billed are estimated and recorded as accounts receivable. Cash received in advance from customers under billing arrangement is reported as deferred revenue and is included in "Advances from customers" in the accompanying consolidated balance sheets. GOGAS does not yet generate revenues.

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 will 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 evaluating the impact that the standard will have on its consolidated financial statements.

Direct Cost of Revenues

Direct cost of revenues for GRE consists primarily of the cost of natural gas and electricity sold, and also includes scheduling costs, Independent System Operator ("ISO") fees, pipeline costs and utility service charges. In addition, the changes in the fair value of GRE's futures contracts, swaps and put and call options are recorded in direct cost of revenues. GOGAS does not yet incur direct cost of revenues as primarily all of its expenses are classified as either research and development or exploration costs.

Research and Development Costs

Research and development costs are incurred primarily by IEI, Afek and Genie Mongolia. Costs for research and development are charged to expense as incurred.

Oil and Gas Exploration Costs

The Company accounts for its 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. At December 31, 2015 and 2014, the Company had capitalized exploration costs of $26.9 million and nil, respectively. The Company is in the process of determining if proved reserves have been found. If no proved reserves are found, the related capitalized exploration costs will be expensed.

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of Business and Summary of Significant Accounting Policies – (Continued)

In the consolidated statements of operations, expense relating to Afek's oil and gas exploration activities of $7.0 million and $4.0 million in 2014 and 2013, respectively, previously included in "Research and development expense", were reclassified to "Exploration expense" to conform to the current year's presentation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Marketable Securities

The Company classified its investments in marketable securities as "available-for-sale." Available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses (net of income taxes) that are considered temporary in nature recorded in "Accumulated other comprehensive income" in the accompanying consolidated balance sheets. The Company uses the specific identification method in computing the gross realized gains and gross realized losses on the maturities and sales of marketable securities. The Company periodically evaluated its investments in marketable securities for impairment due to declines in market value considered to be other than temporary. Such impairment evaluations included, in addition to persistent, declining market prices, general economic and Company-specific evaluations. If the Company determined that a decline in market value was other than temporary, then a charge to operations was recorded in "Other (expense) income, net" in the accompanying consolidated statements of operations and a new cost basis in the investment was established.

Inventory

Inventory consists of natural gas, which is stored at various third parties' underground storage facilities, of $1.6 million and $2.5 million at December 31, 2015 and 2014, respectively. Inventory also includes renewable energy credits of $9.8 million and $8.7 million at December 31, 2015 and 2014, respectively. Natural gas inventory is valued at a weighted average cost, which is based on the purchase price of the natural gas and the cost to transport, plus or minus injections or withdrawals.

In July 2015, the FASB issued an Accounting Standards Update ("ASU") that simplifies the subsequent measurement of inventory. The amendments in this ASU do not apply to inventory that is measured using last-in, first-out or the retail inventory method. The ASU changes the measurement of inventory to the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company will adopt the amendments in this ASU on January 1, 2017. The Company is evaluating the impact that the ASU will have on its consolidated financial statements.

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. GRE holds renewable energy credits for both sale and use, and treats the credits as a government incentive to encourage the construction of renewable power plants. Renewable energy credits are valued at cost, which is the purchase price. Gains and losses from the sale of renewable energy credits are recognized in direct cost of revenues when the credits are transferred to the buyer.

Property and Equipment

Computer software and development, computers and computer hardware, laboratory and drilling equipment and office equipment and other are recorded at cost and are depreciated on a straight-line basis over their estimated

F-11

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of Business and Summary of Significant Accounting Policies – (Continued)

useful lives, which range as follows: computer software and development—2, 3 or 5 years; computers and computer hardware—5 years, laboratory and drilling equipment—7 years, and office equipment and other —5 or 7 years. Leasehold improvements included in office equipment and other are recorded at cost and are depreciated on a straight-line basis over the term of their lease or their estimated useful lives, whichever is shorter.

Long-Lived Assets

The Company tests the recoverability of its long-lived assets with finite useful lives whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company tests the recoverability based on the projected undiscounted cash flows to be derived from such asset. If the projected undiscounted future cash flows are less than the carrying value of the asset, the Company will record an impairment loss based on the difference between the estimated fair value and the carrying value of the asset. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows from such asset using an appropriate discount rate. Cash flow projections and fair value estimates require significant estimates and assumptions by management. Should the estimates and assumptions prove to be incorrect, the Company may be required to record impairments in future periods and such impairments could be material.

Goodwill and Indefinite Lived Intangible Assets

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Goodwill and other indefinite lived intangible assets are not amortized. These assets are reviewed annually (or more frequently under various conditions) for impairment using a fair value approach. The goodwill impairment assessment involves estimating the fair value of the reporting unit and comparing it to its carrying amount, which is known as Step 1. If the carrying value of the reporting unit exceeds its estimated fair value, Step 2 is performed to determine if an impairment of goodwill is required. The fair value of the reporting unit is estimated using discounted cash flow methodologies, as well as considering third party market value indicators. Goodwill impairment is measured by the excess of the carrying amount of the reporting unit's goodwill over its implied fair value. Calculating the fair value of the reporting units, and allocating the estimated fair value to all of the tangible assets, intangible assets and liabilities, requires significant estimates and assumptions by management. Should the estimates and assumptions regarding the fair value of the reporting units prove to be incorrect, the Company may be required to record impairments to its goodwill in future periods and such impairments could be material.

The Company has the option to perform a qualitative assessment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. However, the Company may elect to perform the two-step quantitative goodwill impairment test even if no indications of a potential impairment exist.

For the impairment test of the Company's indefinite-lived intangible assets, a quantitative impairment test is only necessary if the Company determines that it is more likely than not that an indefinite-lived intangible asset is impaired based on an assessment of certain qualitative factors.

Derivative Instruments and Hedging Activities

The Company records its derivatives instruments at their respective fair values. The accounting for changes in the fair value (that is, gains or losses) of a derivative instrument is dependent upon whether the derivative has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

Due to the volatility of electricity and natural gas prices, GRE enters into futures contracts, swaps and put and call options as hedges against unfavorable fluctuations in market prices of electricity and natural gas and to reduce exposure from price fluctuations. The Company does not designate its derivative instruments to qualify for hedge accounting, accordingly the futures contracts, swaps and put and call options are recorded at fair value as a current asset or liability and any changes in fair value are recorded in “Direct cost of revenues” in the consolidated statements of operations.

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of Business and Summary of Significant Accounting Policies – (Continued)

In addition to the above, GRE utilizes forward physical delivery contracts for a portion of its purchases of electricity and natural gas, which are defined as commodity derivative contracts. Using the exemption available for qualifying contracts, GRE applies the normal purchase and normal sale accounting treatment to its forward physical delivery contracts, thereby these contracts are not adjusted to fair value. Accordingly, GRE recognizes revenue from customer sales, and the related direct cost of revenues at the contracted price, as electricity and natural gas is delivered to retail customers.

In August 2015, the FASB issued an ASU specifying that entities would not be precluded from applying the normal purchases and normal sales exception to derivative accounting to forward contracts for the physical delivery of electricity in nodal energy markets that result in parties incurring locational marginal pricing charges or credits. The ASU states that the use of locational marginal pricing by an ISO to determine a transmission charge or credit in a nodal energy market would not constitute a net settlement of a forward contract for the purchase or sale of electricity, even when legal title to the electricity is conveyed to the ISO during transmission. As a result, these contracts could meet the physical delivery criterion in U.S. GAAP and qualify for the normal purchases and normal sales exception to derivative accounting if they meet all of the other criteria. This ASU was effective in August 2015. The adoption of this ASU did not affect the Company's financial position, results of operations or cash flows.

Repairs and Maintenance

The Company charges the cost of repairs and maintenance, including the cost of replacing minor items not constituting substantial betterment, to selling, general and administrative expense as these costs are incurred.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries denominated in foreign currencies are translated to U.S. Dollars at end-of-period rates of exchange, and their monthly results of operations are translated to U.S. Dollars at the average rates of exchange for that month. Gains or losses resulting from such foreign currency translations are recorded in "Accumulated other comprehensive income" in the accompanying consolidated balance sheets. Foreign currency transaction gains and losses are reported in "Other (expense) income, net" in the accompanying consolidated statements of operations.

Advertising Expense

Cost of advertising for customer acquisitions are charged to selling, general and administrative expense in the period in which it is incurred. Most of the advertisements are in print, over the radio, or direct mail. In the years ended December 31, 2015, 2014 and 2013, advertising expense included in selling, general and administrative expense was $0.9 million, $0.3 million and $0.2 million, respectively.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which related temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in its assessment of a valuation allowance. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of such change.

In November 2015, the FASB issued an ASU to simplify the presentation of deferred income taxes. The amendments in the ASU require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position instead of separated into current and noncurrent amounts. The Company adopted the amendments

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of Business and Summary of Significant Accounting Policies – (Continued)

in this ASU on October 1, 2015. As a result, the Company reclassified deferred income tax assets, net of $1.5 million at December 31, 2014 from current to noncurrent.

The Company uses a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. The Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company presumes that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. Tax positions that meet the more-likely-than-not recognition threshold are measured to determine the amount of tax benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability.

The Company classifies interest and penalties on income taxes as a component of income tax expense.

Contingencies

The Company accrues for loss contingencies when both (a) information available prior to issuance of the financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements and (b) the amount of loss can reasonably be estimated. When the Company accrues for loss contingencies and the reasonable estimate of the loss is within a range, the Company records its best estimate within the range. When no amount within the range is a better estimate than any other amount, the Company accrues the minimum amount in the range. The Company discloses an estimated possible loss or a range of loss when it is at least reasonably possible that a loss may have been incurred.

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 determined 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 following shares were excluded from the diluted earnings per share computations because their inclusion would have been anti-dilutive:

	Year ended December 31,		
(in thousands)	2015	2014	2013
Stock options	414	438	3,443
Non-vested restricted Class B common stock	1,852	2,473	265
Shares excluded from the calculation of diluted earnings per share	2,266	2,911	3,708

The diluted loss per share equals basic loss per share in the years ended December 31, 2015, 2014 and 2013 because the Company had a net loss and the impact of the assumed exercise of stock options and 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 (see Note 9). The number of shares issuable in such an exchange is not

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of Business and Summary of Significant Accounting Policies – (Continued)

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 IEI, Afek, Genie Mongolia 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.

Stock-Based Compensation

The Company recognizes compensation expense for grants of stock-based awards to its employees based on the estimated fair value on the grant date. Stock based awards granted to nonemployees are marked-to-market until the vesting of the award. Compensation cost for awards is recognized using the straight-line method over the vesting period. Stock-based compensation is included in selling, general and administrative expense.

Vulnerability Due to Certain Concentrations

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents, restricted cash, certificates of deposit and trade accounts receivable. The Company holds cash, cash equivalents, restricted cash and certificates of deposit 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.

GRE reduces its REP customer credit risk by participating in purchase of receivable programs for a majority of its receivables. In addition to providing billing and collection services, utility companies purchase GRE's receivables and assume all credit risk without recourse to GRE. GRE's primary credit risk is therefore nonpayment by the utility companies. Certain of the utility companies represent significant portions of the Company's consolidated revenues and consolidated gross trade accounts receivable balance and such concentrations increase the Company's 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 consolidated revenues in the period (no other single utility company accounted for more than 10% of consolidated revenues in these periods):

	Year ended December 31,		
	2015	2014	2013

Con Edison	23	%	23	%	25	%
National Grid USA	12	%	na		10	%
West Penn Power	na		10	%	11	%
Penelec	na		na		10	%

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

F-15

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of Business and Summary of Significant Accounting Policies – (Continued)

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 December 31, 2015 and 2014 (no other single utility company accounted for 10% or greater of our consolidated gross trade accounts receivable at December 31, 2015 or 2014):

December 31	2015	2014
Con Edison	22 %	25 %

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. The allowance is determined based on known troubled accounts, historical experience and other currently available evidence. Doubtful accounts are written-off upon final determination that the trade accounts will not be collected. The change in the allowance for doubtful accounts was as follows:

(in thousands)	Balance at beginning of period	Additions charged (reversals credited) to expense	Deductions(1)	Balance at end of period
Year ended December 31, 2015				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	$ 227	$ (29)	$ (16)	$ 182
Year ended December 31, 2014				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	$ 930	$ 310	$ (1,013)	$ 227
Year ended December 31, 2013				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	$ 130	$ 800	$ —	$ 930

(1) Uncollectible accounts written off.

Fair Value Measurements

Fair value of financial and non-financial assets and liabilities is defined as an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy for inputs used to measure fair value, which prioritizes the inputs to valuation techniques used to measure fair value, is as follows:

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

Level 2 – quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 – unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of Business and Summary of Significant Accounting Policies – (Continued)

measurement requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Accounting Standards Updates

In January 2016, the FASB issued an 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.

Note 2—Acquisitions

In December 2013, IDT Energy acquired 100% of the outstanding membership interests of Diversegy, LLC (“Diversegy”), a retail energy advisory and brokerage company that serves commercial and industrial customers, and Epiq Energy, LLC, which was subsequently renamed IDT Energy Network (“IDTEN”), a network marketing company that provides independent representatives with the opportunity to build sales organizations and to profit from both residential and commercial energy. Operating results of the acquired entities from the date of acquisition, which were not significant, are included in the Company’s consolidated financial statements.

All of the Company’s goodwill at December 31, 2015 and 2014 was attributable to the GRE segment. The table below reconciles the change in the carrying amount of goodwill for the period from December 31, 2012 to December 31, 2015:

(in thousands)

Balance at December 31, 2012	$	3,663
Acquisitions		3,686
Balance at December 31, 2013		7,349
Adjustment		(124)
Impairment		(3,562)
Balance at December 31, 2014		3,663
Change in carrying amount		—
Balance at December 31, 2015	$	3,663

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2—Acquisitions – (Continued)

In the year ended December 31, 2014, the annual goodwill impairment test resulted in the impairment of the goodwill of the Diversegy and IDTEN reporting unit primarily because of continuing losses since the acquisitions. The goodwill impairment of $3.6 million recorded in the year ended December 31, 2014 reduced the carrying amount of the goodwill of the Diversegy and IDTEN reporting unit to zero. The Company estimated the fair value of the reporting unit and compared the estimated fair value to the reporting unit's carrying amount. The Company measured the fair value of the reporting unit by discounting its estimated future cash flows using an appropriate discount rate. Since the carrying value of the reporting unit including goodwill exceeded the estimated fair value, the Company performed the required additional steps and determined that the goodwill was fully impaired.

The following table presents unaudited pro forma information of the Company as if the acquisition occurred as of the beginning of the period:

(in thousands)	Year ended December 31, 2013
Revenues	$ 280,307
Net loss	$ (6,408)

Note 3—Fair Value Measurements

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

(in thousands)	Level 1(1)	Level 2(2)	Level 3(3)	Total
December 31, 2015				
Assets:				
Derivative contracts	$ 373	$ 1,308	$ —	$ 1,681
Liabilities:				
Derivative contracts	$ 609	$ 1,583	$ —	$ 2,192
December 31, 2014				
Assets:				
Derivative contracts	$ 1,001	$ 1,376	$ —	$ 2,377
Liabilities:				
Derivative contracts	$ 440	$ 3,563	$ —	$ 4,003

(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.

The Company's subsidiary, GOGAS, issued a stock option in June 2011 to Michael Steinhardt, the Chairman of the Board of IEI, at an exercise price of $5.0 million. The expiration date was April 9, 2015. The expiration date was extended for one month, and on May 9, 2015, the option was exercised (see Note 9). At December 31, 2014 the fair value of the GOGAS stock option was nil.

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3—Fair Value Measurements – (Continued)

The following tables summarize the change in the balance of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3). There were no liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) in the years ended December 31, 2015, 2014 or 2013.

	Year ended December 31,		
(in thousands)	2015	2014	2013
Balance, beginning of period	$ —	$ 62	$ —
Total gains (losses) (realized or unrealized) included in earnings in "Direct cost of revenues"	—	(62)	(142)
Purchases, sales, issuances and settlements:			
Purchases	—	—	359
Settlement	—	—	(155)
Balance, end of period	$ —	$ —	$ 62
The amount of total gains for the period included in earnings in "Direct cost of revenues" attributable to the change in unrealized gains or losses relating to assets held at the end of the period	$ —	$ —	$ 62

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, certificates of deposit, prepaid expenses, other current assets, advances from customers, due to IDT Corporation and other current liabilities. At December 31, 2015 and 2014, the carrying amount 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 were classified as Level 1 and certificates of deposit, prepaid expenses, other current assets, advances from customers, due to IDT Corporation and other current liabilities were classified as Level 2 of the fair value hierarchy.

Other assets, revolving credit loan payable and other liabilities. At December 31, 2015 and 2014, other assets included an aggregate of $1.4 million and $1.5 million, respectively, in notes receivable. The carrying amounts of the notes receivable, revolving credit loan payable 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 4—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 December 31, 2015 and 2014, GRE’s swaps and options were traded on the New York Mercantile Exchange.

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4—Derivative Instruments – (Continued)

The summarized volume of GRE's outstanding contracts and options as of December 31, 2015 was as follows (MWh – Megawatt hour and Dth – Decatherm):

Commodity	Settlement Dates	Volume
Electricity	January 2016	248,000 MWh
Electricity	February 2016	772,800 MWh
Electricity	March 2016	82,800 MWh
Electricity	April 2016	16,800 MWh
Electricity	July 2016	160,000 MWh
Electricity	August 2016	184,000 MWh
Electricity	September 2016	33,600 MWh
Natural gas	February 2016	852,500 Dth
Natural gas	April 2016	200,000 Dth
Natural gas	July 2016	1,110,000 Dth
Natural gas	August 2016	800,000 Dth

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

December 31 (in thousands)		2015	2014
Asset Derivatives	Balance Sheet Location		
Derivatives not designated or not qualifying as hedging instruments:			
Energy contracts and options	Other current assets	$ 1,681	$ 2,377

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

December 31 (in thousands)		2015	2014
Liability Derivatives	Balance Sheet Location		
Derivatives not designated or not qualifying as hedging instruments:			
Energy contracts and options	Energy hedging contracts	$ 2,192	$ 4,003

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

		Amount of Gain (Loss) Recognized on Derivatives Year ended December 31,		
(in thousands)		2015	2014	2013
Derivatives not designated or not qualifying as hedging instruments	Location of Gain (Loss) Recognized on Derivatives			
Energy contracts and options	Direct cost of revenues	$ (1,772)	$ (1,674)	$ 1,177

Note 5—Investment in American Shale Oil, LLC

AMSO, LLC holds a research, development and demonstration lease awarded by the U.S. Bureau of Land Management that covers an area of 160 acres in western Colorado (the "RD&D Lease"). The RD&D Lease had an initial ten-year term that began on January 1, 2007 and provides for a five-year extension if AMSO can demonstrate that a process leading to the production of commercial quantities of shale oil is diligently being pursued. In

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5—Investment in American Shale Oil, LLC – (Continued)

November 2015, AMSO satisfied the extension criteria, and the RD&D Lease was extended effective on January 1, 2017. If AMSO, LLC can demonstrate the economic and environmental viability of its technology, it will have the opportunity to submit a one-time payment pursuant to the applicable regulations and convert its RD&D Lease to a commercial lease on 5,120 acres, which overlap and are contiguous with the 160 acres in its RD&D Lease. (The acreage numbers that appear in this paragraph are unaudited).

In March 2009, a subsidiary of TOTAL S.A. ("Total") acquired a 50% interest in AMSO, LLC in exchange for cash paid to the Company of $3.2 million and Total's commitment to fund the majority of AMSO, LLC's research, development and demonstration expenditures as well as certain other funding commitments. Immediately prior to this transaction, all owners of equity interests in AMSO, LLC other than AMSO exchanged their ownership interest for a proportionate share of a 1% override on AMSO, LLC's future revenue. Following the transaction with Total, AMSO and Total each owned a 50% interest in AMSO, LLC.

On February 23, 2016, Total notified the Company of its decision not to continue to fund AMSO, LLC. The Company is currently considering its options with respect to the future of this project. AMSO and Total are obligated to fund certain remediation and reclamation costs. The Company estimates that its share of such costs would be in the range of nil to $2.0 million.

Except as set forth below, AMSO was responsible for funding 20% of the initial $50 million of AMSO, LLC's approved expenditures, and is responsible for funding 35% of the approved expenditures between $50 million and $100 million, and 40% of the costs of the one-time payment for conversion of AMSO, LLC's RD&D Lease to a commercial lease, in the event AMSO, LLC's application for conversion is approved, with the remaining amounts of such expenditures to be funded by Total. All other expenditures are to be borne in proportion to equity ownership. The percentages for expenditures are subject to proportional adjustment in connection with certain changes in the equity ownership of AMSO LLC. At December 31, 2015, the cumulative contributions of AMSO and Total to AMSO, LLC were $82.9 million. AMSO's allocated share of the net loss of AMSO, LLC is included in "Equity in the net loss of AMSO, LLC" in the accompanying consolidated statements of operations.

AMSO has the right to decide at each capital call whether or not to fund AMSO, LLC, and will make a determination at each such time. AMSO did not fund the capital calls for any quarter from the fourth quarter of 2013 through the second quarter of 2015. AMSO funded an aggregate of $0.3 million from the third quarter of 2015 through the first quarter of 2016, which was 28% of its share of the capital calls. In the period from January 2014 through January 2016, Total funded an aggregate of $4.6 million for AMSO's share of the capital calls that AMSO did not fund. Because of AMSO's decisions not to fund all of its share of AMSO, LLC's expenditures, AMSO's ownership interest in AMSO, LLC was reduced to 41.3% and Total's ownership interest increased to 58.7%. In addition, AMSO's share of future funding of AMSO, LLC up to a cumulative $100 million was reduced to 28.9% and Total's share increased to 71.1%.

The agreements with Total provide for varying consequences for AMSO's failure to fund its share at different stages of the project, including dilution of AMSO's interest in AMSO, LLC or paying interest to Total for expenditures they fund on behalf of AMSO. Either Total or AMSO may terminate its obligations to make capital contributions and withdraw as a member of AMSO, LLC. Even if AMSO were to withdraw its interest in AMSO, LLC, it will remain liable for its share of expenditures for safety and environmental reclamation related to events occurring prior to its withdrawal.

The Company accounts for its ownership interest in AMSO, LLC using the equity method since the Company has the ability to exercise significant influence over its operating and financial matters, although it does not control AMSO, LLC. AMSO, LLC is a variable interest entity, however, the Company has determined that it is not the

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5—Investment in American Shale Oil, LLC – (Continued)

primary beneficiary, as the Company does not have the power to direct the activities of AMSO, LLC that most significantly impact AMSO, LLC's economic performance.

The following table summarizes the change in the balance of the Company's investment in AMSO, LLC:

	Year ended December 31,		
(in thousands)	2015	2014	2013
Balance, beginning of period	$ (252)	$ (252)	$ 242
Capital contributions	250	—	2,700
Equity in net loss of AMSO, LLC	(397)	—	(3,194)
Balance, end of period	$ (399)	$ (252)	$ (252)

At December 31, 2015 and 2014, the liability for equity loss in AMSO, LLC was included in "Accrued expenses" in the consolidated balance sheet.

In part because of AMSO's decision not to fund all of its share of AMSO, LLC's expenditures, AMSO, LLC allocates its net loss beginning January 2014 as follows: $12.1 million of losses were allocated to Total, then it allocates any remaining losses proportionately such that over time AMSO and Total's capital accounts as a percentage of AMSO, LLC's total capital will equal their ownership interests.

Summarized balance sheets of AMSO, LLC are as follows:

December 31		
(in thousands)	2015	2014
ASSETS		
Cash and cash equivalents	$ 204	$ 1,052
Restricted cash and cash equivalents	47	47
Other current assets	85	119
Equipment, net	181	242
Other assets	861	861
TOTAL ASSETS	$ 1,378	$ 2,321
LIABILITIES AND MEMBERS' INTERESTS		
Current liabilities	$ 654	$ 1,324
Other liabilities	861	861
Members' interests	(137)	136
TOTAL LIABILITIES AND MEMBERS' INTERESTS	$ 1,378	$ 2,321

Summarized statements of operations of AMSO, LLC are as follows:

	Year ended December 31,		
(in thousands)	2015	2014	2013
REVENUES	$ —	$ —	$ —
OPERATING EXPENSES:			
General and administrative	403	456	566
Research and development	4,782	7,755	8,601
TOTAL OPERATING EXPENSES	5,185	8,211	9,167
Loss from operations	(5,185)	(8,211)	(9,167)

Other income		—			—			41	
NET LOSS	$	(5,185	)	$	(8,211	)	$	(9,126	)

F-22

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6—Property and Equipment

December 31 (in thousands)	2015	2014
Computer software and development	$ 1,287	$ 1,038
Computers and computer hardware	221	259
Laboratory and drilling equipment	528	1,195
Office equipment and other	349	365
	2,385	2,857
Less: accumulated depreciation	(1,038)	(955)
Property and equipment, net	$ 1,347	$ 1,902

Note 7—Revolving Lines of Credit

On December 17, 2015, GRE, IDT Energy and certain affiliates entered into a Credit Agreement with Maple Bank GmbH for a revolving loan facility. On December 17, 2015, GRE borrowed $2.0 million under the facility. In February 2016, the German banking regulator, Bafin, closed Maple Bank GmbH due to impending financial over-indebtedness related to tax-evasion investigations. Therefore, the revolving line of credit is not available for future borrowings. The collateral for the revolving loan consists of the borrowers' receivables, the balances in certain bank accounts and certain commercial and intangible rights. Outstanding principal amount incurs interest at LIBOR plus 3.5% per annum. Interest is payable monthly and all outstanding principal and any accrued and unpaid interest is due on the maturity date of December 17, 2018. 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. At December 31, 2015, the borrowers were in compliance with all of the covenants.

As of April 23, 2012, the Company and IDT Energy entered into 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 proceeds from the line of credit may be used to provide working capital and for the issuance of letters of credit. 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. The Company is not permitted to withdraw funds or exercise any authority over the required balance in the collateral account. The principal outstanding will bear 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 is payable at least every three months and all outstanding principal and any accrued and unpaid interest is due on the maturity date of April 30, 2016. The Company pays a quarterly unused commitment fee of 0.08% per annum on the difference between $25.0 million and the average daily outstanding principal balance of the note. In addition, as of April 23, 2012, GEIC issued a Corporate Guaranty to JPMorgan Chase Bank whereby GEIC unconditionally guarantees the full payment of all indebtedness of the Company and IDT Energy under the Loan Agreement. At December 31, 2015 and 2014, 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, 2015 and 2014, letters of credit of $7.7 million and $7.6 million, respectively, were outstanding.

Note 8—Income Taxes

The components of (loss) income before income taxes are as follows:

	Year ended December 31,		
(in thousands)	2015	2014	2013

Domestic	$ 1,517	$ (14,900)	$ 9,467
Foreign	(9,628)	(12,412)	(12,053)
LOSS BEFORE INCOME TAXES	$ (8,111)	$ (27,312)	$ (2,586)

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8—Income Taxes – (Continued)

Significant components of the Company's deferred income tax assets consist of the following:

December 31 (in thousands)	2015	2014
Deferred income tax assets:		
Bad debt reserve	$ 75	$ 93
Accrued expenses	3,865	2,940
State taxes	91	78
Charitable contributions	402	330
Net operating loss	26,186	17,473
Stock options and restricted stock	7,752	6,163
Depreciation	1,661	2,089
Total deferred income tax assets	40,032	29,166
Valuation allowance	(38,390)	(27,703)
DEFERRED INCOME TAX ASSETS, NET	$ 1,642	$ 1,463

The Company has initiated a tax strategy that enables the Company to deduct losses from its foreign subsidiaries against its profitable U.S. operations. Because of this strategy, the decrease in pre-tax earnings of GRE in 2012, and the Company's current projections, the Company concluded that it no longer met the criteria of more likely than not in order to utilize its deferred federal income tax assets in the foreseeable future. Accordingly, at December 31, 2015 and 2014, only the state portion of GRE deferred tax assets are reflected.

The provision for (benefit from) income taxes consists of the following:

	Year ended December 31,		
(in thousands)	2015	2014	2013
Current:			
Federal	$ —	$ —	$ 1,112
State and local	704	730	1,891
Foreign	—	(12)	(7)
	704	718	2,996
Deferred:			
Federal	19	68	—
State and local	(198)	(691)	(241)
Foreign	—	—	—
	(179)	(623)	(241)
PROVISION FOR INCOME TAXES	$ 525	$ 95	$ 2,755

The differences between income taxes expected at the U.S. federal statutory income tax rate and income taxes provided are as follows:

	Year ended December 31,		
(in thousands)	2015	2014	2013
U.S. federal income tax at statutory rate	$ (2,840)	$ (9,559)	$ (904)
Valuation allowance	2,982	9,564	2,447
Foreign tax rate differential	31	22	48
Other	20	115	66
	332	(47)	1,098

State and local income tax, net of federal benefit			
PROVISION FOR INCOME TAXES	$ 525	$ 95	$ 2,755

F-24

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8—Income Taxes – (Continued)

At December 31, 2015, the Company had U.S. federal and state net operating loss carry-forwards of approximately $26.1 million and $67.2 million, respectively. These carry-forward losses are available to offset future U.S. federal and state taxable income. The federal net operating loss carry-forwards will start to expire in 2032, with the year ended December 31, 2015's loss expiring in 2036. The state net operating loss carry-forwards will start to expire in 2028, with the year ended December 31, 2015's loss expiring in 2036.

At December 31, 2015, the Company had foreign net operating loss carry-forwards of approximately $52.0 million, of which $47.4 million will not expire. This carry-forward loss is available to offset future foreign taxable income.

The change in the valuation allowance for deferred income taxes was as follows:

(in thousands)	Balance at beginning of period	Additions charged to costs and expenses	Deductions	Balance at end of period
Year ended December 31, 2015				
Reserves for valuation allowances deducted from deferred income taxes, net	$ 27,703	$ 10,687	$ —	$ 38,390
Year ended December 31, 2014				
Reserves for valuation allowances deducted from deferred income taxes, net	$ 16,653	$ 11,050	$ —	$ 27,703
Year ended December 31, 2013				
Reserves for valuation allowances deducted from deferred income taxes, net	$ 11,861	$ 4,792	$ —	$ 16,653

	Year ended December 31,		
(in thousands)	2015	2014	2013
Balance at beginning of period	$ 543	$ 542	$ 223
Additions based on tax positions related to the current period	97	209	—
Additions for tax positions of prior periods	10	9	319
Lapses of statutes of limitations	(14)	(217)	—
Balance at end of period	$ 636	$ 543	$ 542

All of the unrecognized income tax benefits at December 31, 2015 and 2014 would have affected the Company's effective income tax rate if recognized. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

In the years ended December 31, 2015, 2014 and 2013, the Company recorded interest on income taxes of $10,000, $9,000 and $9,000, respectively. As of December 31, 2015 and 2014, there was no accrued interest included in current income taxes payable.

The Company currently remains subject to examinations of its tax returns as follows: U.S. federal tax returns for 2012 to 2015, state and local tax returns generally for 2011 to 2015 and foreign tax returns generally for 2011 to 2015.

Note 9—Equity

Class A Common Stock and Class B Common Stock

The rights of holders of Class A common stock and Class B common stock are identical except for certain voting and conversion rights and restrictions on transferability. The holders of Class A common stock and Class B common stock receive identical dividends per share when and if declared by the Company's Board of Directors. In addition, the holders of Class A common stock and Class B common stock have identical and equal priority rights per share in

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9—Equity – (Continued)

liquidation. The Class A common stock and Class B common stock do not have any other contractual participation rights. The holders of Class A common stock are entitled to three votes per share and the holders of Class B common stock are entitled to one-tenth of a vote per share. Except as required by law or under the terms of the Series 2012-A Preferred Stock (the “Preferred Stock”), the holders of Class A and Class B common stock and the Preferred Stock vote together as a single class on all matters submitted to a vote of the Company’s stockholders. Each share of Class A common stock may be converted into one share of Class B common stock, at any time, at the option of the holder. Shares of Class A common stock are subject to certain limitations on transferability that do not apply to shares of Class B common stock.

Series 2012-A Preferred Stock

Each share of Preferred Stock has a liquidation preference of $8.50 (the “Liquidation Preference”), and is entitled to receive an annual dividend per share equal to the sum of (i) $0.6375 (the “Base Dividend”) plus (ii) seven and one-half percent (7.5%) of the quotient obtained by dividing (A) the amount by which the EBITDA for a fiscal year of the Company’s retail energy provider business exceeds $32 million by (B) 8,750,000 (the “Additional Dividend”), payable in cash. EBITDA consists of income (loss) from operations exclusive of depreciation and amortization and other operating gains (losses). During any period when the Company has failed to pay a dividend on the Preferred Stock and until all unpaid dividends have been paid in full, the Company is prohibited from paying dividends or distributions on the Company’s Class B or Class A common stock.

The Preferred Stock is redeemable, in whole or in part, at the option of the Company following October 11, 2017 at 101% of the Liquidation Preference plus accrued and unpaid dividends, and 100% of the Liquidation Preference plus accrued and unpaid dividends following October 11, 2018.

The Base Dividend is payable (if declared by the Company’s Board of Directors, and accrued, if not declared) quarterly on each February 15, May 15, August 15 and November 15, and to the extent that there is any Additional Dividend payable with respect to a fiscal year, it will be paid to holders of Preferred Stock with the May dividend. With respect to the payment of dividends and amounts upon liquidation, dissolution or winding up, the Preferred Stock is equal in rank to all other equity securities the Company issues, the terms of which specifically provide that such equity securities rank on a parity with the Preferred Stock with respect to dividend rights or rights upon the Company’s liquidation, dissolution or winding up; senior to the Company’s common stock; and junior to all of the Company’s existing and future indebtedness.

Each share of Preferred Stock has the same voting rights as a share of Class B common stock, except on certain matters that only impact the Company’s common stock, as well as additional voting rights on specific matters or upon the occurrence of certain events.

Dividend Payments

In the year ended December 31, 2015, the Company paid aggregate cash dividends of $0.12 per share on its Class A common stock and Class B common stock, equal to $3.0 million in total dividends paid. In the year ended December 31, 2014, the Company paid aggregate cash dividends of $0.06 per share on its Class A common stock and Class B common stock, equal to $1.5 million in total dividends paid. No dividends were declared or paid on the Company’s Class A common stock and Class B common stock in the year ended December 31, 2013. On February 12, 2016, the Company paid a quarterly dividend of $0.06 per share on its Class A common stock and Class B common stock for the fourth quarter of 2015 to stockholders of record as of the close of business on February 5, 2016, as the Company has resumed quarterly dividend payments on its common stock.

In the year ended December 31, 2015, the Company paid aggregate cash dividends of $0.6376 per share on its Preferred Stock, equal to $1.5 million in total dividends paid. In the year ended December 31, 2014, the Company paid aggregate cash dividends of $0.6376 per share on its Preferred Stock, equal to $1.4 million in total Preferred Stock dividends paid. In the year ended December 31, 2013, the Company paid aggregate cash dividends of $0.6099

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9—Equity – (Continued)

per share on its Preferred Stock, equal to $1.1 million in total Preferred Stock dividends paid. On February 16, 2016, the Company paid a quarterly Base Dividend of $0.1594 per share on its Preferred Stock for the fourth quarter of 2015 to stockholders of record as of the close of business on February 5, 2016.

Stock Repurchases

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. In the year ended December 31, 2014, the Company repurchased 103,331 shares of Class B common stock under this program for an aggregate purchase price of $0.8 million. There were no repurchases under the program in the years ended December 31, 2015 and 2013. At December 31, 2015, 6.9 million shares remained available for repurchase under the stock repurchase program.

Exchange Offers and Issuances of Preferred Stock

On November 26, 2012, the Company initiated an offer to exchange up to 7.15 million outstanding shares of its Class B common stock for the same number of shares of its Preferred Stock. The offer expired on March 5, 2013. On March 11, 2013, the Company issued 313,376 shares of its Preferred Stock in exchange for an equal number of shares of Class B common stock tendered in the exchange offer.

On May 22, 2014, the Company initiated an offer to exchange up to 5.0 million shares of its outstanding Class B common stock for the same number of shares of its Preferred Stock. The offer expired on June 23, 2014. On June 27, 2014, the Company issued 404,732 shares of its Preferred Stock in exchange for an equal number of shares of Class B common stock tendered in the exchange offer. As a result of the issuance of additional shares of Preferred Stock, the aggregate quarterly Base Dividend increased to $0.4 million from $0.3 million.

Sale of Shares to Howard S. Jonas

On July 30, 2014, the Company entered into a Second Amended and Restated Employment Agreement and a Restricted Stock Sale Agreement with Howard S. Jonas, the Company's Chairman of the Board and Chief Executive Officer. Pursuant to these agreements, (a) options to purchase 3.0 million shares of the Company's Class B common stock previously granted to Mr. Jonas, with an exercise price of $10.30 per share were cancelled, (b) the term of the existing employment agreement between the Company and Mr. Jonas was extended for an additional one year period, expiring on December 31, 2019, and (c) Mr. Jonas committed to purchase an aggregate of 3.6 million shares of the Company's Class B common stock from the Company at a price of $6.82 per share (the closing price per share of the Class B common stock on the day that the arrangement was approved by the Company's Board of Directors and Compensation Committee). The 3.6 million Class B shares are subject to repurchase by the Company at $6.82 per share upon certain terminations of Mr. Jonas' employment by the Company, and such repurchase right lapses as to 0.6 million shares on December 31, 2016, 2017 and 2018. On July 30, 2014 and August 4, 2014, the Company sold an aggregate of 3.6 million shares of the Company's Class B common stock to Mr. Jonas for an aggregate purchase price of $24.6 million. The Company accounted for the change in the equity arrangements with Mr. Jonas as a modification, with an incremental value of nil. Accordingly, the unrecognized compensation cost as of July 30, 2014 of $17.0 million is being recognized on a straight-line basis over the modified vesting period. The estimated total value of the options on the date of the grant was $19.3 million.

Sales of Equity of Subsidiaries

Per the terms of his employment agreement, Dr. Harold Vinegar, Chief Scientist of the Company (“Vinegar”), has an option to purchase, at fair value, up to 10% of the GOGAS ventures in which he is a key contributor:

- In November 2008, Vinegar purchased a 10% interest in IEI.

F-27

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9—Equity – (Continued)

- In October 2013, Vinegar purchased a 9.5% interest in Afek.
- In November 2013, Vinegar purchased a 9.8% interest in Genie Mongolia.

In connection with Vinegar's November 2008 purchase of a 10% interest in IEI, the purchase agreement included certain no cost anti-dilution protection as follows. If IEI issues certain of its shares in order to raise capital until the capitalization of IEI equals $20 million, IEI shall issue to Vinegar additional shares to maintain his 10% interest in IEI. In December 2013, IEI converted its intercompany payable to GOGAS into preferred stock. Pursuant to the anti-dilution protection, IEI issued shares of its preferred stock to Vinegar equal to 10% of $20 million or $2.0 million, which the Company recorded as an increase in "Noncontrolling interests" and a corresponding decrease in "Additional paid-in capital".

In November 2010, GOGAS sold a 0.5% equity interest to Rupert Murdoch for $1.0 million paid with a promissory note. The note was secured by a pledge of the shares issued in exchange for the note. The note accrued interest at 1.58% per annum. The Company received an aggregate of $1.1 million for the payment of the principal and accrued interest on the maturity date of November 15, 2015.

In connection with the sale by GOGAS in November 2010 of a 5.0% equity interest to an entity affiliated with Lord (Jacob) Rothschild for $10.0 million, the entity affiliated with Lord Rothschild has a one-time option through November 12, 2017 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.

Exercise of GOGAS stock option

GOGAS issued a stock option in June 2011 to Michael Steinhardt at an exercise price of $5.0 million. The expiration date was April 9, 2015. The expiration date was extended for one month, and on May 9, 2015, the option was exercised. Mr. Steinhardt and an affiliate received interests of approximately 1.5% in each of Afek, Genie Mongolia and IEI. In addition, Mr. Steinhardt and the affiliate received an approximately 1.7% interest in AMSO. The exercise price of $5.0 million was paid $2.5 million in cash and $2.5 million in promissory notes due in November 2015. The notes bear interest at 0.43% per annum, and are secured by 50% of the shares received in the exercise. In November 2015, the Company received cash of $0.8 million to repay one-third of the principal amount of the promissory notes, and released one-third of the shares securing the remaining notes. The remaining notes, an aggregate of $1.7 million, are expected to be repaid in 2016. At December 31, 2015, the notes receivable were included in "Receivables for issuance of equity" in the consolidated balance sheet.

Note 10—Stock-Based Compensation

Stock-Based Compensation Plan

The Company's 2011 Stock Option and Incentive Plan is intended to provide incentives to executives, employees, directors and consultants of the Company. Incentives available under the 2011 Stock Option and Incentive Plan may include stock options, stock appreciation rights, limited rights, deferred stock units, and restricted stock. The plan is administered by the Compensation Committee of the Company's Board of Directors. On May 5, 2015, the Company's stockholders approved an amendment and restatement to the Company's 2011 Stock Option and Incentive Plan that increased the number of shares of the Company's Class B common stock available for the grant of awards thereunder by an additional 180,000 shares. At December 31, 2015, the Company had 1.3 million shares of Class B common stock reserved for award under its 2011 Stock Option and Incentive Plan and 0.2 million shares were available for future grants.

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10—Stock-Based Compensation – (Continued)

Restricted Stock

The fair value of restricted shares of the Company's Class B common stock is determined based on the closing price of the Company's Class B common stock on the grant date. Share awards generally vest on a graded basis over three years of service following the grant.

A summary of the status of the Company's grants of restricted shares of Class B common stock is presented below:

	Number of Non-vested Shares (in thousands)	Weighted- Average Grant Date Fair Value
Non-vested shares at December 31, 2014	73	$ 9.83
Granted	38	9.95
Vested	(57)	8.18
Forfeited	(2)	10.01
NON-VESTED SHARES AT DECEMBER 31, 2015	52	$ 11.72

At December 31, 2015, there was $9.0 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements, including $8.5 million relating to the shares purchased by Howard S. Jonas (see Note 9). The total unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.6 years. The total grant date fair value of shares vested in the years ended December 31, 2015, 2014 and 2013 was $0.5 million, $2.5 million and $3.3 million, respectively. The Company recognized compensation cost related to the vesting of the restricted stock of $3.6 million, $6.6 million, and $2.0 million in the years ended December 31, 2015, 2014, and 2013, respectively. The compensation cost related to the vesting of the restricted stock included $2.8 million and $5.7 million relating to the shares purchased by Howard S. Jonas in the years ended December 31, 2015 and 2014, respectively.

Effective December 12, 2013, the Company issued 63,917 restricted shares of its Class B common stock to the President of the Company. The restricted shares vest in three years that began in January 2014. The fair value of the restricted shares on the date of the grant was $0.7 million, which is being recognized on a straight-line basis over the vesting period.

Effective January 6, 2014, the Company issued 29,126 restricted shares of its Class B common stock to Michael Stein, Executive Vice President of the Company, and son-in-law of Howard S. Jonas. The restricted shares vest in three equal annual installments commencing on January 5, 2015. The fair value of the restricted shares on the date of the grant was $0.3 million, which is being recognized on a straight-line basis over the vesting period.

Stock Options

Option awards are generally granted with an exercise price equal to the market price of the Company's stock on the date of grant. Option awards generally vest on a graded basis over three years of service and have ten-year contractual terms. Expected volatility is based on historical volatility of the Company's Class B common stock and other factors. The Company uses historical data on exercise of stock options, post vesting forfeitures and other factors to estimate the expected term of the stock-based payments granted. The risk free rate is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value of stock options was estimated on the date of the grant using a Black-Scholes valuation model and the assumptions in the following table. No option awards were granted in the year ended December 31, 2014.

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10—Stock-Based Compensation – (Continued)

	Year ended December 31, 2015		2013	
ASSUMPTIONS				
Average risk-free interest rate	0.93	%	2.07	%
Expected dividend yield	—		—	
Expected volatility	61.0	%	65.6	%
Expected term	5.5 years		6.5 years	

A summary of stock option activity for the Company is as follows:

	Number of Options (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2014	438	$ 6.85	6.3	$ —
Granted	6	0.01		
Exercised	(25)	6.85		
Cancelled / Forfeited	(5)	6.85		
OUTSTANDING AT DECEMBER 31, 2015	414	$ 6.74	5.6	$ 1,825
EXERCISABLE AT DECEMBER 31, 2015	268	$ 6.80	5.4	$ 1,167

The weighted-average grant date fair value of options granted by the Company during the years ended December 31, 2015 and 2013 was $9.67 and $6.42, respectively. The total intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013 was $12,000, $12,000 and $29,000, respectively. At December 31, 2015, there was $0.8 million of total unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of 1.9 years. The Company recognized compensation cost related to the vesting of the options of $0.3 million, $2.5 million and $0.4 million in the years ended December 31, 2015, 2014 and 2013, respectively.

Grants of Equity of Subsidiaries

On May 5, 2015, the Compensation Committee of the Company's Board of Directors approved the grant of deferred stock units in GRE to certain of the Company's officers and employees. Howard S. Jonas was granted deferred stock units representing 2.8% of the outstanding equity in GRE, Avi Goldin, the Company's Chief Financial Officer and Executive Vice President - Finance was granted deferred stock units representing 0.2% of the outstanding equity in GRE, Michael Stein, the Company's Executive Vice President and the Chief Executive Officer and a Director of GRE was granted deferred stock units representing 0.3% of the outstanding equity in GRE, and other employees were granted deferred stock units representing an aggregate of 0.6% of the outstanding equity in GRE. The deferred stock units vest in equal amounts on the first, second and third anniversaries of the date of grant. The fair value of the GRE deferred stock units on the date of grant was $3.3 million, which is being recognized on a straight-line basis over the vesting period. At December 31, 2015, the unrecognized compensation cost relating to these grants was $2.7 million, which is expected to be recognized over a weighted-average period of 1.4 years. The Company recognized aggregate compensation cost related to the vesting of the GRE deferred stock units and other subsidiary equity interests that were granted in prior years of $1.4 million, $1.6 million and $1.8 million in the years ended December 31, 2015, 2014 and 2013, respectively.

In 2014 and 2013, the Company elected to exchange vested deferred stock units of IDT Energy previously granted to employees and directors of the Company for shares of the Company's Class B common stock upon the vesting of the deferred stock units based on the relative fair value of the shares exchanged. Accordingly, in August 2014 and 2013, the Company issued 137,738 and 133,758 shares of the Company's Class B common stock in exchange for 23.6 and 23.6 vested deferred stock units of IDT Energy, respectively. In August 2015, the Company elected to pay cash of

F-30

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10—Stock-Based Compensation – (Continued)

$1.2 million for the remaining 23.6 deferred stock units of IDT Energy that vested in June and July 2015 based on the estimated fair value of the deferred stock units of IDT Energy.

Note 11—Variable Interest Entities

In 2011, an employee of IDT incorporated Citizens Choice Energy, LLC ("CCE"), which is a REP that resells electricity and natural gas to residential and small business customers in the State of New York. In addition, DAD Sales, LLC ("DAD") used its network of door-to-door sales agents to obtain customers for CCE. In December 2012, DAD ceased to acquire customers for CCE. The Company provided CCE and DAD with substantially all of the cash required to fund their operations. The Company determined that since the acquisition of the interest in CCE and DAD, it had the power to direct the activities of these entities that most significantly impact their economic performance and it has the obligation to absorb losses of CCE and DAD that could potentially be significant to CCE and DAD on a stand-alone basis. The Company therefore determined that it is the primary beneficiary of CCE and DAD, and as a result, the Company consolidates CCE and DAD within its GRE segment. The Company does not own any interest in CCE or DAD and thus the net income or loss incurred by CCE and DAD was attributed to noncontrolling interests in the accompanying consolidated statements of operations.

In October 2015, GRE paid $0.2 million to the owner of the limited liability company interests in CCE, and loaned CCE $0.5 million in exchange for an option to purchase 100% of the issued and outstanding limited liability company interests of CCE for one dollar plus the forgiveness of the $0.5 million loan. The option expires on October 22, 2023.

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

	Year ended December 31,		
(in thousands)	2015	2014	2013
Net income (loss):			
CCE	$ 201	$ 763	$ 2,080
DAD	(167)	(104)	(67)
Aggregate funding repaid to (provided by) the Company, net	950	(266)	4,126

Summarized consolidated balance sheet amounts related to CCE and DAD are as follows:

December 31 (in thousands)	2015	2014
ASSETS		
Cash and cash equivalents	$ 48	$ 33
Restricted cash	25	20
Trade accounts receivable	844	1,873
Prepaid expenses	479	480
Other current assets	51	178
Other assets	468	459
TOTAL ASSETS	$ 1,915	$ 3,043
LIABILITIES AND NONCONTROLLING INTERESTS		
Current liabilities	$ 267	$ 479
Due to IDT Energy	427	1,377

Noncontrolling interests		1,221		1,187
TOTAL LIABILITIES AND NONCONTROLLING INTERESTS	$	1,915	$	3,043

F-31

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11—Variable Interest Entities – (Continued)

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

Note 12—Accumulated Other Comprehensive Income

The accumulated balances for each classification of other comprehensive income (loss) were as follows:

(in thousands)	Unrealized loss on available- for-sale securities	Foreign currency translation	Accumulated other comprehensive income (loss)	Location of (Gain) Loss Recognized
Balance at December 31, 2012	$ (15)	$ 285	$ 270	
Other comprehensive (loss) income before reclassifications	(55)	460	405	
Amounts reclassified from accumulated other comprehensive income	70	—	70	Interest income
Net other comprehensive income	15	460	475	
Balance at December 31, 2013	—	745	745	
Other comprehensive loss attributable to Genie	—	(735)	(735)	
Balance at December 31, 2014	—	10	10	
Other comprehensive income attributable to Genie	—	144	144	
BALANCE AT DECEMBER 31, 2015	$ —	$ 154	$ 154	

Note 13—Legal and Regulatory 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. IDT Energy believes that the claims in this lawsuit are without merit and intends to vigorously defend the action.

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 allege, among other things, various violations of Pennsylvania's Unfair Trade Practices and Consumer Protection Law, the Telemarketing Registration Act and the Pennsylvania PUC's regulations. IDT Energy has 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, if approved by the PUC, IDT Energy will agree to 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 agree to implement certain modifications to its sales, marketing and customer service processes, along with additional compliance and reporting requirements. The settlement must be approved by the Pennsylvania PUC, which is expected in the second quarter of 2016.

F-32

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13—Legal and Regulatory Proceedings – (Continued)

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 December 19, 2014, IDT Energy filed a motion to dismiss the complaint. On December 9, 2015, the Court denied IDT Energy's motion to dismiss without prejudice so as to allow McLaughlin to file an amended complaint. 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. Subsequently, on February 22, 2016, IDT Energy moved to dismiss the amended complaint. The named plaintiff's opposition papers to the motion to dismiss are due on March 18, 2016 and IDT Energy's reply is due on April 11, 2016. In the meantime, the parties are engaged in limited discovery. IDT Energy believes that the claims in the amended complaint are without merit and intends to vigorously defend the action.

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. On November 6, 2014, the Court denied IDT Energy's motion to dismiss the complaint. The parties are currently engaged in discovery. IDT Energy believes that the claims in this lawsuit are without merit and intends to vigorously defend the action.

At December 31, 2015, the Company had an aggregate of $2.5 million accrued for the complaints and lawsuits described above.

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 GRE. The restrictions described in the PSC's order, which were to become effective March 4, 2016, would require 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 until a court hearing on April 14, 2016. GRE expects that the REP industry will take additional legal action in response to the order seeking a definitive judicial review of the industry's challenges to the PSC's order.

The Company is evaluating the potential impact of the PSC's order on its New York operations, while preparing to operate in compliance with any new requirements. Depending on the final language of the order and the outcome of legal appeals, as well as our final response to the order with respect to our relationships with our New York customers, the order will likely have a substantial impact upon GRE's operations in New York. As of December 31, 2015, New York represented 53% of GRE's total meters served and 44% of the total residential customer equivalents of GRE's customer base.

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.

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14—Commitments and Contingencies

Purchase Commitments

The Company had purchase commitments of $22.4 million at December 31, 2015. The purchase commitments outstanding at December 31, 2015 are expected to be paid as follows: $14.7 million in the year ending December 31, 2016, $6.6 million in the year ending December 31, 2017 and $1.1 million in the year ending December 31, 2018.

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 December 31, 2015, GRE had commitments to purchase renewable energy credits of $41.8 million.

Environmental Remediation Liability

At December 31, 2015, Afek's estimated liability for environmental remediation in the Golan Heights in Northern Israel was $0.2 million, which is included in "Exploration expense" in 2015 in the accompanying consolidated statement of operations. The estimated liability is expected to increase as Afek continues its up to ten-well exploratory program.

Tax Audits

The Company is subject to audits in various jurisdictions for various taxes. Amounts asserted by taxing authorities or the amount ultimately assessed against the Company could be greater than the accrued amount. Accordingly, provisions may be recorded in the future as estimates are revised 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.

Letters of Credit

At December 31, 2015, the Company had letters of credit outstanding totaling $7.7 million primarily for the benefit of regional transmission organizations that coordinate the movement of wholesale electricity and for certain utility companies. The letters of credit outstanding at December 31, 2015 expire as follows: $4.2 million in the year ending December 31, 2016 and $3.5 million in the year ending December 31, 2017.

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 retail energy providers. At December 31, 2015, GRE had aggregate performance bonds of $11.9 million outstanding.

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14—Commitments and Contingencies – (Continued)

Lease Commitments

The future minimum payments for operating leases at December 31, 2015 are as follows:

(in thousands)		
Year ending December 31:		
2016	$	306
2017		165
2018		14
2019		—
2020		—
Thereafter		—
Total payments	$	485

Rental expense under operating leases was $1.2 million, $0.8 million and $0.6 million in the years ended December 31, 2015, 2014 and 2013, respectively.

Other Contingencies

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. 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 December 31, 2015, the Company was in compliance with such covenants. At December 31, 2015, restricted cash—short-term of $0.8 million and trade accounts receivable of $27.0 million were pledged to BP as collateral for the payment of IDT Energy’s trade accounts payable to BP of $8.3 million at December 31, 2015.

Note 15—Related Party Transactions

The Company entered into various agreements with IDT prior to the Spin-Off including a Separation and Distribution Agreement to effect the separation and provide a framework for the Company’s relationship with IDT after the Spin-Off, and a Transition Services Agreement, which provides for certain services to be performed by the Company and IDT. These agreements provide for, among other things, (1) the allocation between the Company and IDT of employee benefits, taxes and other liabilities and obligations attributable to periods prior to the Spin-Off, (2) transitional services to be provided by IDT relating to human resources and employee benefits administration, (3) the allocation of responsibilities relating to employee compensation and benefit plans and programs and other related matters, (4) finance, accounting, tax, internal audit, facilities, investor relations and legal services to be provided by IDT to the Company following the Spin-Off and (5) specified administrative services to be provided by the Company to certain of IDT’s foreign subsidiaries.

IDT charges the Company for services it provides pursuant to the Transition Services Agreement. The charges for these services are included in “Selling, general and administrative” expense. In addition, the Company provides services to certain of IDT's subsidiaries. The charges for these services reduce the Company's

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15—Related Party Transactions – (Continued)

“Selling, general and administrative” expense. The amounts IDT charged the Company, and the amounts the Company charged IDT, were as follows:

	Year ended December 31,		
(in thousands)	2015	2014	2013
Amount IDT charged the Company	$ 2,340	$ 3,447	$ 3,348
Amount the Company charged IDT	546	530	285

In addition, the Company entered into a Tax Separation Agreement with IDT, which sets forth the responsibilities of the Company and IDT with respect to, among other things, liabilities for federal, state, local and foreign taxes for periods before and including the Spin-Off, the preparation and filing of tax returns for such periods and disputes with taxing authorities regarding taxes for such periods. Pursuant to the Tax Separation Agreement, among other things, IDT indemnifies the Company from all liability for taxes of IDT with respect to any taxable period, and the Company indemnifies IDT from all liability for taxes of the Company with respect to any taxable period, including, without limitation, the ongoing tax audits related to the Company’s business.

The Company had notes receivable outstanding from employees aggregating $1.0 million at December 31, 2015 and 2014, which are included in “Other assets” in the accompanying consolidated balance sheet.

The Company obtains insurance policies from several insurance brokers, one of which is IGM Brokerage Corp. (“IGM”). IGM is owned by the mother of Howard S. Jonas and Joyce Mason, the Company’s Corporate Secretary. Jonathan Mason, husband of Joyce Mason and brother-in-law of Howard S. Jonas, provides insurance brokerage services via IGM. Based on information the Company received from IGM, the Company believes that (1) IGM received commissions and fees from payments made by the Company (including payments from third party brokers) in the aggregate amounts of $14,236, $13,912 and $11,074 in the years ended December 31, 2015, 2014 and 2013, respectively, which fees and commissions inured to the benefit of Mr. Mason, and (2) the total payments made by the Company to IGM for various insurance policies were $143,367, $140,374 and $124,149 in the years ended December 31, 2015, 2014 and 2013, respectively. Neither Howard S. Jonas nor Joyce Mason has any ownership or other interest in IGM other than via the familial relationships with their mother and Jonathan Mason.

Note 16—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, GOGAS and Afek. GRE operates REPs, including IDT Energy and Residents 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. GOGAS is an oil and gas exploration company. The GOGAS segment is comprised of early stage oil shale projects including (1) an 88.4% interest in Genie Mongolia, an oil shale exploration project in Central Mongolia, (2) a 98.3% interest in AMSO, which holds and manages a 41.3% interest in AMSO, LLC, an oil shale development project in Colorado, and (3) an 86.1% interest in IEI, an oil shale development project in Israel. The Company has an 86.5% interest in Afek, which operates an oil and gas exploration project in the Golan Heights in Northern Israel. GRE has outstanding deferred stock units granted to officers and employees that represent an interest of 3.9% of the equity of GRE. Corporate costs include unallocated compensation, consulting fees, legal fees, business development expenses and other corporate-related general and administrative expenses. Corporate does not generate any revenues, nor does it incur any direct cost of revenues.

Afek was included in the GOGAS segment from its inception until December 31, 2014. Beginning in the first quarter of 2015, Afek is a separate reportable segment. Comparative results have been reclassified and restated as if Afek was a separate segment in all periods presented.

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16—Business Segment Information – (Continued)

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
Year ended December 31, 2015					
Revenues	$ 210,109	$ —	$ —	$ —	$ 210,109
Income (loss) from operations	13,542	(7,458)	(3,058)	(8,908)	(5,882)
Depreciation	245	104	78	1	428
Research and development	—	63	1,922	—	1,985
Exploration	—	6,583	—	—	6,583
Equity in the net loss of AMSO, LLC	—	—	397	—	397
Year ended December 31, 2014					
Revenues	$ 275,031	$ —	$ —	$ —	$ 275,031
Income (loss) from operations	3,516	(7,294)	(6,479)	(15,353)	(25,610)
Depreciation	24	8	99	1	132
Research and development	—	144	5,394	—	5,538
Exploration	—	6,971	—	—	6,971
Goodwill impairment	3,562	—	—	—	3,562
Equity in the net loss of AMSO, LLC	—	—	—	—	—
Year ended December 31, 2013					
Revenues	$ 279,174	$ —	$ —	$ —	$ 279,174
Income (loss) from operations	25,696	(4,255)	(11,700)	(9,115)	626
Depreciation	15	2	92	1	110
Research and development	—	186	7,171	—	7,357
Exploration	—	4,032	—	—	4,032
Equity in the net loss of AMSO, LLC	—	—	3,194	—	3,194

There were no revenues from customers located outside of the United States in all periods presented.

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

(in thousands)	GRE	Afek	GOGAS	Corporate	Total
Total assets:					

December 31, 2015	$	80,177	$	38,665	$	17,770	$	19,203	$	155,815
December 31, 2014		78,254		6,243		48,899		19,532		152,928
December 31, 2013		76,691		5,597		36,596		39,959		158,843

GENIE ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16—Business Segment Information – (Continued)

Net long-lived assets and total assets held outside of the United States, which are located primarily in Israel, were as follows:

(in thousands)	United States	Foreign Countries	Total
December 31, 2015			
Long-lived assets, net	$ 763	$ 646	$ 1,409
Total assets	114,880	40,935	155,815
December 31, 2014			
Long-lived assets, net	$ 834	$ 1,230	$ 2,064
Total assets	143,897	9,031	152,928
December 31, 2013			
Long-lived assets, net	$ 352	$ 377	$ 729
Total assets	150,315	8,528	158,843

Note 17—Selected Quarterly Financial Data (Unaudited)

The table below presents selected quarterly financial data of the Company for its fiscal quarters in 2015 and 2014:

Quarter Ended (in thousands, except per share data)	Revenues	Direct cost of revenues	(Loss) income from operations	Net (loss) income	Net (loss) income attributable to Genie Energy Ltd.	(Loss) earnings per common share Basic	Diluted
2015:							
December 31	$ 43,915	$ 27,815	$ (3,674)	$ (4,106)	$ (3,794)	$ (0.19)	$ (0.19)
September 30	52,238	30,420	3,839	2,626	2,845	0.11	0.10
June 30	39,527	25,551	(4,332)	(4,726)	(4,498)	(0.22)	(0.22)
March 31	74,429	57,229	(1,715)	(2,430)	(2,010)	(0.11)	(0.11)
TOTAL	$ 210,109	$ 141,015	$ (5.882)	$ (8,636)	$ (7,457)	$ (0.40)	$ (0.40)
2014:							
December 31(1)	$ 49,687	$ 36,924	$ (10,666)	$ (10,428)	$ (10,436)	$ (0.50)	$ (0.50)
September 30	46,186	28,359	(4,107)	(4,825)	(4,395)	(0.22)	(0.22)
June 30	48,810	37,359	(4,344)	(5,007)	(4,871)	(0.24)	(0.24)
March 31(2)	130,348	120,452	(6,493)	(7,147)	(6,784)	(0.33)	(0.33)
TOTAL	$ 275,031	$ 223,094	$ (25,610)	$ (27,407)	$ (26,486)	$ (1.31)	$ (1.31)

(1) In the fourth quarter of 2014, loss from operations includes goodwill impairment of $3.6 million and gain on adjustment to estimated contingent payments of $0.2 million.

(2) Unusually cold weather in the first quarter of 2014 that affected the overall demand for electricity and natural gas for heat caused a significant increase in revenues and direct cost of revenues in the first quarter of 2014 compared to the same period in 2015. The winter's polar vortex resulted in extraordinarily large spikes in the prices of wholesale electricity and natural gas in markets where GRE and other REPs purchased their supply.

F-38