

Spark Energy, Inc.
Form 10-Q
May 10, 2018
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

For the transition period from to

Commission File Number: 001-36559
Spark Energy, Inc.
(Exact name of registrant as specified in its charter)

Delaware 46-5453215
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
12140 Wickchester Ln, Suite 100
Houston, Texas 77079

(Address of principal executive offices)

(713) 600-2600
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Emerging Growth Company x

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. ☒ x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ o No ☒ x

There were 13,141,349 shares of outstanding Class A common stock, 21,485,126 shares of Class B common stock and 3,707,256 shares of Series A Preferred Stock outstanding as of May 8, 2018.

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PART 1. — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPARK ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2018 AND DECEMBER 31, 2017

(in thousands)

(unaudited)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$21,065	\$29,419
Accounts receivable, net of allowance for doubtful accounts of \$4.4 million and \$4.0 million as of March 31, 2018 and December 31, 2017, respectively	152,454	158,814
Accounts receivable—affiliates	3,063	3,661
Inventory	400	4,470
Fair value of derivative assets	7,965	31,191
Customer acquisition costs, net	20,181	22,123
Customer relationships, net	20,878	18,653
Prepaid assets	3,809	1,028
Deposits	28,763	7,701
Other current assets	23,254	19,678
Total current assets	281,832	296,738
Property and equipment, net	7,699	8,275
Fair value of derivative assets	262	3,309
Customer acquisition costs, net	6,698	6,949
Customer relationships, net	35,074	34,839
Deferred tax assets	30,734	24,185
Goodwill	120,154	120,154
Other assets	11,452	11,500
Total assets	\$493,905	\$505,949
Liabilities, Series A Preferred Stock and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$61,687	\$77,510
Accounts payable—affiliates	4,050	4,622
Accrued liabilities	41,512	33,679
Fair value of derivative liabilities	12,347	1,637
Current portion of Senior Credit Facility	—	7,500
Current payable pursuant to tax receivable agreement—affiliates	5,937	5,937
Current contingent consideration for acquisitions	3,043	4,024
Other current liabilities	2,484	2,675
Current portion of note payable	11,332	13,443
Total current liabilities	142,392	151,027
Long-term liabilities:		
Fair value of derivative liabilities	11,038	492
Payable pursuant to tax receivable agreement—affiliates	26,355	26,355
Long-term portion of Senior Credit Facility	106,500	117,750
Contingent consideration for acquisitions	—	626

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Other long-term liabilities	—	172
Long-term portion of note payable	5,900	7,051
Total liabilities	292,185	303,473
Commitments and contingencies (Note 13)		
Series A Preferred Stock, par value \$0.01 per share, 20,000,000 shares authorized, 3,707,256 shares issued and outstanding at March 31, 2018 and 1,704,339 shares issued and outstanding at December 31, 2017	90,758	41,173
Stockholders' equity:		
Common Stock ⁽¹⁾ :		
Class A common stock, par value \$0.01 per share, 120,000,000 shares authorized, 13,237,981 issued, and 13,138,535 outstanding at March 31, 2018 and 13,235,082 issued and 13,135,636 outstanding at December 31, 2017	132	132
Class B common stock, par value \$0.01 per share, 60,000,000 shares authorized, 21,485,126 issued and outstanding at March 31, 2018 and December 31, 2017	216	216
Additional paid-in capital	27,717	26,914
Accumulated other comprehensive loss	(43)	(11)
Retained earnings	(5,726)	11,008
Treasury stock, at cost, 99,446 shares at March 31, 2018 and December 31, 2017	(2,011)	(2,011)
Total stockholders' equity	20,285	36,248
Non-controlling interest in Spark HoldCo, LLC	90,677	125,055
Total equity	110,962	161,303
Total liabilities, Series A Preferred Stock and stockholders' equity	\$493,905	\$505,949

(1) Outstanding shares of common stock reflect the two-for-one stock split, which took effect on June 16, 2017. See Note 5 "Equity" for further discussion.

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(2) See Note 5 "Equity" for disclosure of our variable interest entity in Spark HoldCo, LLC.

The accompanying notes are an integral part of the condensed consolidated financial statements.

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SPARK ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2018	2017 ⁽¹⁾
Revenues:		
Retail revenues	\$284,001	\$196,500
Net asset optimization revenues/(expense) ⁽²⁾	2,687	(193)
Total Revenues	286,688	196,307
Operating Expenses:		
Retail cost of revenues	289,876	145,761
General and administrative ⁽³⁾	30,047	24,493
Depreciation and amortization	13,019	9,270
Total Operating Expenses	332,942	179,524
Operating (loss) income	(46,254)	16,783
Other (expense)/income:		
Interest expense	(2,245)	(3,445)
Interest and other income	201	199
Total other expenses	(2,044)	(3,246)
(Loss) Income before income tax (benefit) expense	(48,298)	13,537
Income tax (benefit)/expense	(6,467)	2,405
Net (loss) income	\$(41,831)	\$11,132
Less: Net (loss) income attributable to non-controlling interests	(29,505)	8,862
Net (loss) income attributable to Spark Energy, Inc. stockholders	\$(12,326)	\$2,270
Less: Dividend on Series A preferred stock	2,027	183
Net (loss) income attributable to stockholders of Class A common stock	\$(14,353)	\$2,087
Other comprehensive loss, net of tax:		
Currency translation loss	\$(83)	\$(49)
Other comprehensive loss	(83)	(49)
Comprehensive (loss) income	\$(41,914)	\$11,083
Less: Comprehensive (loss) income attributable to non-controlling interests	(29,556)	8,831
Comprehensive (loss) income attributable to Spark Energy, Inc. stockholders	\$(12,358)	\$2,252
Net (loss) income attributable to Spark Energy, Inc. per share of Class A common stock		
Basic	\$(1.09)	\$0.16
Diluted	\$(1.09)	\$0.16
Weighted average shares of Class A common stock outstanding		
Basic	13,136	12,996
Diluted	13,136	13,268

Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by (1)an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

(2)Net asset optimization revenues (expenses) includes asset optimization revenues—affiliates of \$648 and \$0 for the three months ended March 31, 2018 and 2017, respectively, and asset optimization revenues—affiliates cost of

revenues of \$12 and \$0 for the three months ended March 31, 2018 and 2017, respectively.

- (3) General and administrative expense includes general and administrative expense—affiliates of \$6,400 and \$7,300 for the three months ended March 31, 2018 and 2017, respectively.

The accompanying notes are an integral part of the condensed consolidated financial statements.

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SPARK ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2018

(in thousands)

(unaudited)

	Issued Shares of Class A Common Stock	Issued Shares of Class B Common Stock	Treasury Stock	Class A Common Stock	Class B Common Stock	Treasury Stock	Other Comprehensive Loss	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stockholders' Equity	Non-control Interest	Total Equity
Balance at December 31, 2017	13,235	21,485	(99)	\$ 132	\$ 216	\$(2,011)	\$(11)	\$26,914	\$ 11,008	\$ 36,248	\$ 125,055	\$ 161,303
Stock based compensation	—	—	—	—	—	—	—	817	—	817	—	817
Restricted stock unit vesting	3	—	—	—	—	—	—	(14)	—	(14)	—	(14)
Consolidated net loss	—	—	—	—	—	—	—	—	(12,326)	(12,326)	(29,505)	(41,831)
Foreign currency translation adjustment for equity method investee	—	—	—	—	—	—	(32)	—	—	(32)	(51)	(83)
Distributions paid to non-controlling unit holders	—	—	—	—	—	—	—	—	—	—	(4,822)	(4,822)
Dividends paid to Class A common stockholders	—	—	—	—	—	—	—	—	(2,381)	(2,381)	—	(2,381)
Dividends to Preferred Stock	—	—	—	—	—	—	—	—	(2,027)	(2,027)	—	(2,027)
Balance at March 31, 2018	13,238	21,485	(99)	\$ 132	\$ 216	\$(2,011)	\$(43)	\$27,717	\$(5,726)	\$ 20,285	\$ 90,677	\$ 110,962

The accompanying notes are an integral part of the condensed consolidated financial statements.

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SPARK ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2018	2017 ⁽¹⁾
Cash flows from operating activities:		
Net (loss) income	\$(41,831)	\$11,132
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization expense	11,632	8,204
Deferred income taxes	(6,549)	(87)
Stock based compensation	1,131	1,367
Amortization of deferred financing costs	295	248
Change in Fair Value of Earnout liabilities	—	711
Accretion on fair value of Earnout liabilities	—	1,226
Bad debt expense	2,423	356
Loss on derivatives, net	36,542	21,796
Current period cash settlements on derivatives, net	16,442	(6,178)
Accretion of discount to convertible subordinated notes to affiliate	—	1,004
Payment of the Major Energy Companies Earnout	—	(1,104)
Other	(248)	6
Changes in assets and liabilities:		
Decrease in accounts receivable	9,737	3,738
Decrease (Increase) in accounts receivable—affiliates	354	(55)
Decrease in inventory	4,070	3,322
Increase in customer acquisition costs	(4,274)	(7,690)
Increase in prepaid and other current assets	(22,719)	(1,302)
Increase in other assets	(58)	—
Decrease in accounts payable and accrued liabilities	(9,091)	(8,979)
Decrease in accounts payable—affiliates	(572)	(1,684)
Decrease in other current liabilities	(6,653)	(2,413)
Decrease in other non-current liabilities	(171)	(324)
Net cash (used in) provided by operating activities	(9,540)	23,294
Cash flows from investing activities:		
Purchases of property and equipment	(754)	(112)
Acquisition of HIKO	(15,041)	—
Net cash used in investing activities	(15,795)	(112)
Cash flows from financing activities:		
Proceeds from issuance of Series A Preferred Stock, net of issuance costs paid	48,490	38,607
Borrowings on notes payable	83,800	5,625
Payments on notes payable	(102,550)	(46,993)
Payment of the Major Energy Companies Earnout	(1,607)	(6,299)
Payment of the Provider Companies Earnout and installment consideration	—	(2,097)
Payments on the Verde promissory note	(3,261)	—
Proceeds from disgorgement of stockholders short-swing profits	244	666
Payment of dividends to Class A common stockholders	(2,381)	(2,355)
Payment of distributions to non-controlling unitholders	(4,822)	(4,347)

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Payment of Dividends to Preferred Stock	(932)	—
Net cash provided by (used in) financing activities	16,981	(17,193)
(Decrease) increase in Cash and cash equivalents	(8,354)	5,989
Cash and cash equivalents—beginning of period	29,419	18,960
Cash and cash equivalents—end of period	\$21,065	\$24,949

Supplemental Disclosure of Cash Flow Information:

Non-cash items:

Property and equipment purchase accrual	\$180	\$76
Cash paid during the period for:		
Interest	\$1,854	\$888
Taxes	\$1,268	\$118

(1) Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

The accompanying notes are an integral part of the condensed consolidated financial statements.

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SPARK ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Formation and Organization

Organization

Spark Energy, Inc. ("Spark Energy," "Company," "we" or "us") is an independent retail energy services company that provides residential and commercial customers in competitive markets across the United States with an alternative choice for natural gas and electricity. The Company is a holding company whose sole material asset consists of units in Spark HoldCo, LLC ("Spark HoldCo"). Spark HoldCo owns all of the outstanding membership interests or common stock in each of Spark Energy, LLC ("SE"), Spark Energy Gas, LLC ("SEG"), Oasis Power Holdings, LLC ("Oasis"), CenStar Energy Corp. ("CenStar"), Electricity Maine, LLC, Electricity N.H., LLC and Provider Power Mass, LLC (collectively, the "Provider Companies"); Major Energy Services, LLC, Major Energy Electric Services, LLC, and Respond Power, LLC (collectively, the "Major Energy Companies"), Perigee Energy, LLC ("Perigee"), the Verde Companies (as defined below), and HIKO Energy, LLC ("HIKO"), the operating subsidiaries through which the Company operates. The Company is the sole managing member of Spark HoldCo, is responsible for all operational, management and administrative decisions relating to Spark HoldCo's business and consolidates the financial results of Spark HoldCo and its subsidiaries.

Verde Energy USA, Inc.; Verde Energy USA Commodities, LLC; Verde Energy USA Connecticut, LLC; Verde Energy USA DC, LLC; Verde Energy USA Illinois, LLC; Verde Energy USA Maryland, LLC; Verde Energy USA Massachusetts, LLC; Verde Energy USA New Jersey, LLC; Verde Energy USA New York, LLC; Verde Energy USA Ohio, LLC; Verde Energy USA Pennsylvania, LLC; Verde Energy USA Texas Holdings, LLC; Verde Energy USA Trading, LLC; and Verde Energy Solutions, LLC (collectively, the "Verde Companies") operate as retail energy providers and were formed on various dates from December 27, 2007 to November 13, 2014. We acquired the Verde Companies on July 1, 2017, as described in Note 4 "Acquisitions."

Relationship with our Founder and Majority Shareholder

W. Keith Maxwell, III (our "Founder") is the owner of a majority in voting power of our common stock through his ownership of NuDevco Retail, LLC ("NuDevco Retail") and Retailco, LLC ("Retailco"). Retailco is a wholly owned subsidiary of TxEx Energy Investments, LLC ("TxEx"), which is wholly owned by Mr. Maxwell. NuDevco Retail is a wholly owned subsidiary of NuDevco Retail Holdings LLC ("NuDevco Retail Holdings"), which is a wholly owned subsidiary of Electric HoldCo, LLC, which is also a wholly owned subsidiary of TxEx.

Emerging Growth Company Status

As a company with less than \$1.07 billion in revenues during its last fiscal year, the Company qualifies as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other regulatory requirements.

The Company will remain an "emerging growth company" until as late as the last day of the Company's 2019 fiscal year, or until the earliest of: (i) the last day of the fiscal year in which the Company has \$1.07 billion or more in annual revenues; (ii) the date on which the Company becomes a "large accelerated filer" (the fiscal year-end on which the total market value of the Company's common equity securities held by non-affiliates is \$700 million or more as of June 30); or (iii) the date on which the Company issues more than \$1.0 billion of non-convertible debt over a three-year period.

As a result of the Company's election to avail itself of certain provisions of the JOBS Act, the information that the Company provides may be different than what you may receive from other public companies in which you hold an equity interest.

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Exchange and Registration Rights

The Spark HoldCo Third Amended and Restated Limited Liability Company Agreement provides that if the Company issues a new share of Class A common stock, par value \$0.01 per share (the "Class A common stock"), Series A Preferred Stock (as defined below) or other equity security of the Company (other than shares of Class B common stock, par value \$0.01 per share ("Class B common stock"), and excluding issuances of Class A common stock upon an exchange of Class B common stock or Series A Preferred Stock), Spark HoldCo will concurrently issue a corresponding limited liability company unit either to the holder of the Class B common stock, or to the Company in the case of the issuance of shares of Class A common stock, Series A Preferred Stock or such other equity security. As a result, the number of Spark HoldCo units held by the Company always equals the number of shares of Class A common stock, Series A Preferred Stock or such other equity securities of the Company outstanding.

Each share of Class B common stock, all of which are held by NuDevco Retail and Retailco, has no economic rights but entitles the holder to one vote on all matters to be voted on by stockholders generally. Holders of Class A common stock and Class B common stock vote together as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise required by applicable law or by our certificate of incorporation.

NuDevco Retail and Retailco have the right to exchange (the "Exchange Right") all or a portion of their Spark HoldCo units (together with a corresponding number of shares of Class B common stock) for Class A common stock (or cash at Spark Energy, Inc.'s or Spark HoldCo's election (the "Cash Option")) at an exchange ratio of one share of Class A common stock for each Spark HoldCo unit (and corresponding share of Class B common stock) exchanged. In addition, NuDevco Retail and Retailco have the right, under certain circumstances, to cause the Company to register the offer and resale of NuDevco Retail's and Retailco's shares of Class A common stock obtained pursuant to the Exchange Right.

2. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying interim unaudited condensed consolidated financial statements ("interim statements") of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). This information should be read in conjunction with our consolidated financial statements and notes contained in our annual report on Form 10-K for the year ended December 31, 2017. The Company's unaudited condensed consolidated financial statements are presented on a consolidated basis and include all wholly-owned and controlled subsidiaries. We account for investments over which we have significant influence but not a controlling financial interest using the equity method of accounting. All significant intercompany transactions and balances have been eliminated in the unaudited condensed consolidated financial statements.

The preparation of the Company's condensed consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenses during the period. Actual results could materially differ from those estimates. Effects on the business, financial condition and results of operations resulting from revisions to estimates are recognized when the facts that give rise to the revision become known. The information furnished herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the condensed consolidated financial statements. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the full year or for any interim period.

Transactions with Affiliates

The Company enters into transactions with, and pays certain costs on behalf of, affiliates that are commonly controlled by W. Keith Maxwell III, and these affiliates enter into transactions with, and pay certain costs on behalf

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of us, in order to reduce risk, reduce administrative expense, create economies of scale, create strategic alliances and supply goods and services.

These transactions include, but are not limited to, certain services to the affiliated companies associated with employee benefits provided through the Company's benefit plans, insurance plans, leased office space, administrative salaries for management due diligence work, recurring management consulting, and accounting, tax, legal, or technology services based on services provided, departmental usage, or headcount, which are considered reasonable by management. As such, the accompanying condensed consolidated financial statements include costs that have been incurred by the Company and then directly billed or allocated to affiliates, and costs that have been incurred by our affiliates and then directly billed or allocated to us, and are recorded net in general and administrative expense on the condensed consolidated statements of operations with a corresponding accounts receivable—affiliates or accounts payable—affiliates, respectively, recorded in the condensed consolidated balance sheets. Additionally, the Company enters into transactions with certain affiliates for sales or purchases of natural gas and electricity, which are recorded in retail revenues, retail cost of revenues, and net asset optimization revenues in the condensed consolidated statements of operations with a corresponding accounts receivable—affiliate or accounts payable—affiliate in the condensed consolidated balance sheets. The allocations and related estimates and assumptions are described more fully in Note 14 "Transactions with Affiliates."

Presentation of the Acquisition of Perigee Energy, LLC

On February 3, 2017, NG&E completed the acquisition of 100% of the membership interests of Perigee. On April 1, 2017, the Company and Spark HoldCo completed the purchase of all of the outstanding membership interests of Perigee from NG&E. As the acquisition of Perigee was a transfer of equity interest of entities under common control, the Company's historical financial statements for the three months ended March 31, 2017 have been recast in this Form 10-Q to include the results attributable to Perigee from February 3, 2017. The unaudited condensed consolidated financial statements for this recast period have been prepared from Perigee's historical cost-basis and may not necessarily be indicative of the actual results of operations that would have occurred had the Company owned Perigee during the recast period.

Subsequent Events

Subsequent events have been evaluated through the date these financial statements are issued. Any material subsequent events that occurred prior to such date have been properly recognized or disclosed in the condensed consolidated financial statements. See Note 16 "Subsequent Events" for further discussion.

Recent Accounting Pronouncements

Standards adopted in 2018

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The Company adopted the new standard effective January 1, 2018 utilizing the full retrospective approach. The adoption of the new standard resulted in no impact to our total revenues and operating income for the years ended December 31, 2017 and 2016, since our contracts with customers identify the delivery of products and services that are individually distinct performance obligations and revenue is recognized when performance obligations are satisfied. As a result, receivable balances related to revenue, including amounts related to unbilled revenue, are reflected as accounts receivable in the condensed consolidated balance sheets. Other than accounts receivable, revenue related contract assets and liabilities are immaterial.

The standard requires expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. See Note 3 "Revenues" for further disclosure.

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The Company's asset optimization activities meet the definition of trading activities per FASB ASC Topic 815, Derivatives and Hedging, and are therefore excluded from the scope of Revenue from Contracts with Customers (Topic 606).

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 provides guidance on the presentation and classification of cash flow issues in the statement of cash flows. This ASU has been applied using a retrospective transition method for each period presented. The Company adopted ASU 2016-15 effective January 1, 2018 and resulted in the reclassification of contingent consideration payments made after a business combination as cash outflows for operating and financing activities on a retrospective basis. Because of the change in accounting guidance, we reclassified acquisition related payments of approximately \$1.1 million from cash flows from investing activities to cash flows from operating activities for the three months ended March 31, 2017. We reclassified acquisition related payments of approximately \$8.4 million from cash flows from investing activities to cash flows from financing activities for the three months ended March 31, 2017.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting, including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods and is to be applied prospectively to transactions on or after the adoption date. The Company adopted ASU 2017-01 effective January 1, 2018, and applied the guidance in the evaluation of whether the HIKO acquisition should be accounted for as an acquisition of assets or a business.

Standards Being Evaluated/Standards Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 amends the existing accounting standards for lease accounting by requiring entities to include substantially all leases on the balance sheet by requiring the recognition of right-of-use assets and lease liabilities for all leases. Entities may elect to not recognize leases with a maximum possible term of less than 12 months. For lessees, a lease is classified as finance or operating and the asset and liability are initially measured at the present value of the lease payments. For lessors, accounting for leases is largely unchanged from previous guidance. ASU 2016-02 also requires qualitative disclosures along with certain specific quantitative disclosures for both lessees and lessors. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and are effective for interim periods in the year of adoption. The ASU should be applied using a modified retrospective approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments in this update, an entity should perform its annual or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 should be applied on a prospective basis and is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

3. Revenues

Significant accounting policy

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The Company's revenues are derived primarily from the sale of natural gas and electricity to retail customers. The Company also records revenue from sales of natural gas and electricity to wholesale counterparties, including affiliates.

Revenue is measured based on consideration specified in a contract with a retail customer or wholesale counterparty, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product to a customer, therefore revenue is recognized when natural gas or electricity is delivered. Similarly, cost of revenues is recognized when the commodity is delivered.

The Company records gross receipts taxes on a gross basis in retail revenues and retail cost of revenues. During the three months ended March 31, 2018 and 2017, the Company's retail revenues included gross receipts taxes of \$2.4 million and \$1.4 million, respectively. During the three months ended March 31, 2018 and 2017, the Company's retail cost of revenues included gross receipts taxes of \$2.8 million and \$2.3 million, respectively.

Sales tax, which represents taxes assessed by individual state and local governmental authorities that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, is excluded from revenue.

Nature of goods sold

The following is a description of principal activities - separated by reportable segments - from which the Company generates its revenue. For more detailed information about reportable segments, see Note 15 "Segment Reporting."

Retail Natural Gas Segment

Revenues for natural gas sales are recognized under the accrual method when the Company's performance obligation to a customer is satisfied, which is the point in time when the product is delivered and control of the product passes to the customer. Natural gas products may be sold as fixed-price or variable-price products. The typical length of a contract to provide natural gas is 12 months. Customers are billed and pay at least monthly, based on usage. Natural gas sales that have been delivered but not billed by period end are estimated and recorded as accrued unbilled revenues based on estimates of customer usage since the date of the last meter read provided by the utility. Volume estimates are based on forecasted volumes and estimated residential and commercial customer usage. Unbilled revenues are calculated by multiplying these volume estimates by the applicable rate by customer class (residential or commercial). Estimated amounts are adjusted when actual usage is known and billed.

Retail Electricity Segment

Revenues for electricity sales are recognized under the accrual method when the Company's performance obligation to a customer is satisfied, which is the point in time when the product is delivered and control of the product passes to the customer. Electricity products may be sold as fixed or variable rate products. The typical length of a contract to provide electricity is 12 months. Customers are billed and pay at least monthly, based on usage. Electricity sales that have been delivered but not billed by period end are estimated. Accrued unbilled revenues are based on estimates of customer usage since the date of the last meter read provided by the utility. Volume estimates are based on forecasted volumes and estimated residential and commercial customer. Unbilled revenues are calculated by multiplying these volume estimates by the applicable rate by customer class (residential or commercial). Estimates amounts are adjusted when actual usage is known and billed.

Disaggregation of revenue

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The following table disaggregates revenue by primary geographical market, customer type, customer credit risk profile. The table also includes a reconciliation of the disaggregated revenue to revenue by reportable segment (in thousands).

	Reportable segments Three months ended March 31, 2018		
	Retail Natural Gas	Retail Electricity	Total reportable segments
Primary geographical markets (a)			
New England	\$9,351	\$101,098	\$110,449
Mid-Atlantic	25,931	77,555	103,486
Midwest	19,258	17,835	37,093
Southwest	8,562	24,411	32,973
	\$63,102	\$220,899	\$284,001
Customer type			
Commercial	\$24,299	\$96,893	\$121,192
Residential	45,729	147,994	193,723
Unbilled revenue (b)	(6,926)	(23,988)	(30,914)
	\$63,102	\$220,899	\$284,001
Customer credit risk			
POR	\$36,770	\$157,001	\$193,771
Non-POR	26,332	63,898	90,230
	\$63,102	\$220,899	\$284,001

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Reportable segments
 Three months ended March 31,
 2017 ⁽¹⁾

Retail Natural Gas	Retail Electricity	Total reportable segments
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Primary geographical markets (a)

New England	\$9,631	\$49,904	\$59,535
Mid-Atlantic	24,182	58,471	82,653
Midwest	16,954	12,184	29,138
Southwest	12,039	13,135	25,174
	\$62,806	\$133,694	\$196,500

Customer type

Commercial	\$23,537	\$42,997	\$66,534
Residential	43,969	95,435	139,404
Unbilled revenue (b)	(4,700)	(4,738)	(9,438)
	\$62,806	\$133,694	\$196,500

Customer credit risk

POR	\$32,984	\$92,734	\$125,718
Non-POR	29,822	40,960	70,782
	\$62,806	\$133,694	\$196,500

(1) Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

(a) The geographical regions noted above include the following states:

- New England - Connecticut, Maine, Massachusetts, New Hampshire;
- Mid-Atlantic - Delaware, Maryland (including the District of Colombia), New Jersey, New York and Pennsylvania;
- Midwest - Illinois, Indiana, Michigan and Ohio; and
- Southwest - Arizona, California, Colorado, Florida, Nevada, and Texas.

(b) Unbilled revenue is recorded in total until actualized, at which time it is categorized between commercial customers and residential customers.

4. Acquisitions

Acquisition of HIKO

On March 1, 2018, the Company entered into a Membership Interest Purchase Agreement pursuant to which the Company acquired all of the issued and outstanding membership interests of HIKO Energy, LLC, a New York limited liability company, for a total purchase price of \$6.0 million in cash, plus working capital. HIKO Energy, LLC ("HIKO") has a total of approximately 29,000 RCEs located in 42 markets in 7 states.

The acquisition of HIKO was accounted for under the acquisition method in accordance with ASC 805, Business Combinations ("ASC 805"). The allocation of purchase consideration was based upon the estimated fair value of the tangible and identifiable intangible assets acquired and liabilities assumed in the acquisition. The allocation was made to major categories of assets and liabilities based on management's best estimates, and supported by independent

third-party analyses. The allocation of the purchase consideration is as follows (in thousands):

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	As of March 31, 2018
Cash and restricted cash	309
Intangible assets - customer relationships	6,205
Net working capital, net of cash acquired	9,041
Fair value of derivative liabilities	(205)
Total	15,350

Finalization of the Company's actual working capital adjustment with the Seller is pending as of March 31, 2018. An estimated negative working capital adjustment between the Company and the Seller of \$0.4 million was recorded as of March 31, 2018 and is included in other current liabilities.

Customer relationships

The acquired customer relationships intangibles related to the HIKO are reflective of the HIKO's customer base, and were valued using an excess earnings method under the income approach. Using this method, the Company estimated the future cash flows resulting from the existing customer relationships, considering attrition as well as charges for contributory assets, such as net working capital, intangible assets, and assembled workforce. These future cash flows were then discounted using an appropriate risk-adjusted rate of return to arrive at the present value of the expected future cash flows. These customer relationships will be amortized to depreciation and amortization based on the expected future net cash flows by year.

We have not included pro forma information for HIKO acquisition because it did not have a material impact on our financial position or results of operations.

The Company's condensed consolidated statements of operations for the three months ended March 31, 2018 included \$2.7 million of revenue and \$1.1 million of net income from operations related to the operations of HIKO.

Acquisition of Verde

On July 1, 2017, the Company, through CenStar, its subsidiary, completed the acquisition from Verde Energy USA Holdings, LLC (the "Seller") of all of the outstanding membership interests and stock in the Verde Companies. Total consideration was approximately \$91.2 million, of which approximately \$20.8 million represented positive net working capital. The Company funded the closing consideration of \$85.8 million through: (i) approximately \$6.8 million of cash on hand, (ii) approximately \$15.0 million in subordinated debt from the Company's founder and majority shareholder through an existing subordinated debt facility, (iii) approximately \$44.0 million in borrowings under its senior secured revolving credit facility, and (iv) the issuance by CenStar to the Seller of a promissory note in the aggregate principal amount of \$20.0 million (the "Promissory Note"). In addition to the consideration paid at closing, CenStar was obligated to pay 100% of the Adjusted EBITDA earned by the Verde Companies for the 18 months following closing that exceeds certain thresholds, subject to the Verde Companies' ability to achieve defined customer count criteria (the "Verde Earnout"). The Verde Earnout was valued at \$5.4 million on the acquisition date. Upon the closing of the acquisition, the Verde Companies became restricted subsidiaries and co-borrowers under the Company's Senior Credit Facility.

The Verde Earnout was based on achievement by the Verde Companies of certain performance targets over the 18 month period following the closing of the acquisition of the Verde Companies. The Company and the Seller agreed to

terminate the Verde Earnout on January 12, 2018, and settled the obligation with the issuance of a \$5.9 million promissory note payable to the Seller in June 2019 (the "Verde Earnout Termination Note"). See discussion of the Verde Earnout Termination Note in Note 9 "Debt."

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The acquisition of the Verde Companies was accounted for under the acquisition method in accordance with ASC 805, Business Combinations (“ASC 805”). The allocation of purchase consideration was based upon the estimated fair value of the tangible and identifiable intangible assets acquired and liabilities assumed in the acquisition. The allocation was made to major categories of assets and liabilities based on management’s best estimates, and supported by independent third-party analyses. The excess of the purchase price over the estimated fair value of tangible and intangible assets acquired and liabilities assumed was allocated to goodwill. The allocation of the purchase consideration is as follows (in thousands):

	As of March 31, 2018
Cash and restricted cash	\$1,653
Property and equipment	4,560
Intangible assets - customer relationships	28,700
Intangible assets - trademarks	3,000
Goodwill	39,207
Net working capital, net of cash acquired	19,132
Deferred tax liability	(3,126)
Fair value of derivative liabilities	(1,942)
Total	\$91,184

Finalization of the Company's actual working capital adjustment with the Seller is pending as of March 31, 2018. An estimated positive working capital adjustment between the Company and the Seller of approximately \$0.5 million was recorded as of March 31, 2018 and is included in accounts receivable.

Customer relationships

The acquired customer relationships intangibles related to the Verde Companies are reflective of the Verde Companies' customer base, and were valued using an excess earnings method under the income approach. Using this method, the Company estimated the future cash flows resulting from the existing customer relationships, considering attrition as well as charges for contributory assets, such as net working capital, intangible assets, fixed assets, and assembled workforce. These future cash flows were then discounted using an appropriate risk-adjusted rate of return to arrive at the present value of the expected future cash flows. These customer relationships were bifurcated between unhedged and hedged and will be amortized to depreciation and amortization based on the expected future net cash flows by year and expensed to retail cost of revenues based on the expected term of the underlying fixed price contract acquired in each reporting period, respectively.

Trademark

The fair value of the Verde Companies' trademark is reflective of the value associated with the recognition and reputation of the Verde Companies to target markets. The fair value of the trademark was valued using a royalty savings method under the income approach. The value is based on the savings the Company would realize from owning the trademark rather than paying a royalty for the use of that trademark. Under this approach, the Company estimated the present value of the expected cash flows resulting from avoiding royalty payments to use a third party trademark. We analyzed market royalty rates charged for licensing trademarks and applied an expected royalty rate to a forecast of estimated revenue, which was then discounted using an appropriate risk adjusted rate of return. The trademark is being amortized over the estimated five-year life of the asset on a straight-line basis.

Goodwill

The excess of the purchase consideration over the estimated fair value of the amounts initially assigned to the identifiable assets acquired and liabilities assumed was recorded as goodwill. Goodwill arose on the acquisition of the Verde Companies primarily due the value of its assembled workforce, its proprietary sales channels, and access

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to new utility service territories. Goodwill recorded in connection with the acquisition of the Verde Companies is deductible for income tax purposes because the Verde Companies was an acquisition of all of the assets of the Verde Companies.

The valuation and purchase price allocation of the Verde Companies was based on a preliminary fair value analysis. The Company anticipates adjustments to the working capital amounts that are expected to be finalized prior to the measurement period's expiration.

The following unaudited pro forma revenue and earnings summary presents consolidated information of the Company as if the acquisition had occurred on January 1, 2016 (in thousands):

	Three Months Ended March 31,	
	2017	2016
Revenues	\$233,290	\$156,571
Earnings	\$2,334	\$4,419

The pro forma results are not necessarily indicative of our consolidated results of operations in future periods or the results that actually would have been realized had the companies operated on a combined basis during the periods presented. The revenue and earnings for the three months ended March 31, 2017 and 2016 reflects actual results of operations since the financial results were fully combined during that period. The pro forma results include adjustments primarily related to amortization of acquired intangibles, and certain accounting policy alignments as well as direct and incremental acquisition related costs reflected in the historical financial statements. The preliminary purchase price allocation was used to prepare the pro forma adjustments. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments.

Acquisition of Perigee

On April 1, 2017, the Company and Spark Holdco completed the purchase of all of the outstanding membership interest of Perigee, a Texas limited liability company, with operations across 14 utilities in Connecticut, Delaware, Massachusetts, New York and Ohio. The purchase price for Perigee from NG&E was approximately \$4.1 million, which consisted of a base price of \$2.0 million, \$0.2 million additional customer option payment, and \$1.9 million in working capital, subject to adjustments.

The acquisition of Perigee by the Company and Spark HoldCo from NG&E was a transfer of equity interests of entities under common control on April 1, 2017. Accordingly, the assets acquired and liabilities assumed were based on their historical value as of April 1, 2017. NG&E acquired Perigee on February 3, 2017 and the fair value of the net assets acquired was as follows (in thousands):

	Final as of December 31, 2017
Cash	\$ 23
Intangible assets - customer relationships	1,100
Goodwill	1,540
Net working capital, net of cash acquired	2,085
Fair value of derivative liabilities	(443)
Total	\$ 4,305

Customer relationships

The acquired customer relationships intangibles related to Perigee are reflective of Perigee's customer base, and were valued at the respective dates of acquisition using an excess earnings method under the income approach. Using this method, the Company estimated the future cash flows resulting from the existing customer relationships,

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considering attrition as well as charges for contributory assets, such as net working capital, fixed assets, and assembled workforce. These future cash flows were then discounted using an appropriate risk-adjusted rate of return by retail unit to arrive at the present value of the expected future cash flows. These customer relationships are amortized to depreciation and amortization based on the expected future net cash flows by year.

Goodwill

The excess of the purchase consideration over the estimated fair value of the amounts initially assigned to the identifiable assets acquired and liabilities assumed was recorded as goodwill. Goodwill arose on the acquisition of Perigee by NG&E primarily due to the value of Perigee's access to a new utility service territory. Goodwill recorded in connection with the acquisition of Perigee is deductible for income tax purposes because the acquisition of Perigee was an acquisition of all of the assets of Perigee.

The valuation and purchase price allocation of Perigee was based on a preliminary fair value analysis performed as of February 3, 2017, the date Perigee was acquired by NG&E.

We have not included pro forma information for Perigee acquisition because it did not have a material impact on our financial position or results of operations.

5. Equity

Non-controlling Interest

The Company holds an economic interest and is the sole managing member in Spark HoldCo, with NuDevco Retail and Retailco holding the remaining economic interest in Spark HoldCo. As a result, the Company has consolidated the financial position and results of operations of Spark HoldCo and reflected the economic interest retained by NuDevco Retail and Retailco as a non-controlling interest.

The Company and NuDevco Retail and Retailco owned the following economic interests in Spark HoldCo at December 31, 2017 and March 31, 2018, respectively.

Non-controlling Interest Economic Interest

	The Company	NuDevco Retail and Retailco ⁽¹⁾
December 31, 2017	38.12 %	61.88 %
March 31, 2018	38.12 %	61.88 %

The following table summarizes the portion of net income and income tax benefit attributable to non-controlling interest (in thousands):

	Three Months Ended March 31, 2018	2017 ⁽¹⁾
Net income allocated to non-controlling interest	\$(29,888)	\$8,405
Income tax benefit allocated to non-controlling interest	(383)	(457)
Net income attributable to non-controlling interest	\$(29,505)	\$8,862

(1) Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting

Policies" and "Acquisitions," respectively, for further discussion.

Stock Split

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On May 22, 2017, the Company authorized and approved a two-for-one stock split of the Company's issued Class A common stock and Class B common stock, which was effected through a stock dividend (the "Stock Split"). Shareholders of record at the close of business on June 5, 2017 were issued one additional share of Class A common stock or Class B common stock of the Company for each share of Class A common stock or Class B common stock, respectively, held by such shareholder on that date. Such additional shares of Class A common stock or Class B common stock were distributed on June 16, 2017. All shares and per share amounts in this report have been retrospectively restated to reflect the Stock Split.

Share Repurchase Program

On May 24, 2017, the Company authorized a share repurchase program of up to \$50.0 million of Spark Class A common stock through December 31, 2017. The Company funded the program through available cash balances, its credit facilities, and operating cash flows. The share repurchase program expired on December 31, 2017.

The Company used the cost method to account for its treasury shares. Purchases of shares of Class A common stock were recorded at cost, and the gross cost of the Class A common stock purchased was charged to a contra equity account entitled "Treasury Stock."

Class A Common Stock

The Company had a total of 13,138,535 and 13,135,636 shares of its Class A common stock outstanding at March 31, 2018 and December 31, 2017, respectively, and 99,446 shares of treasury stock at March 31, 2018 and December 31, 2017. Each share of Class A common stock holds economic rights and entitles its holder to one vote on all matters to be voted on by shareholders generally.

Class B Common Stock

The Company had a total of 21,485,126 shares of its Class B common stock outstanding at March 31, 2018 and December 31, 2017. Each share of Class B common stock, all of which are held by NuDevco Retail and Retailco, has no economic rights but entitles its holder to one vote on all matters to be voted on by shareholders generally.

Holders of Class A common stock and Class B common stock vote together as a single class on all matters presented to our shareholders for their vote or approval, except as otherwise required by applicable law or by our certificate of incorporation.

Preferred Stock

The Company has 20,000,000 shares of authorized preferred stock for which there were 3,707,256 and 1,704,339 issued and outstanding shares at March 31, 2018 and December 31, 2017, respectively.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income attributable to stockholders (the numerator) by the weighted-average number of Class A common shares outstanding for the period (the denominator). Class B common shares are not included in the calculation of basic earnings per share because they are not participating securities and have no economic interest in the Company. Diluted earnings per share is similarly calculated except that the denominator is increased (1) using the treasury stock method to determine the potential dilutive effect of the Company's outstanding unvested restricted stock units and (2) using the if-converted method to determine the potential dilutive effect of the Company's Class B common stock. All shares and per share amounts in this Quarterly

Report on Form 10-Q have been retrospectively restated to reflect the Stock Split.

The following table presents the computation of (loss) earnings per share for the three months ended March 31, 2018 and 2017 (in thousands, except per share data):

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	Three Months Ended March 31,	
	2018	2017
Net (loss) income attributable to Spark Energy, Inc. stockholders	\$(12,326)	\$2,270
Less: Dividend on Series A preferred stock	2,027	183
Net (loss) income attributable to stockholders of Class A common stock	\$(14,353)	\$2,087
Basic weighted average Class A common shares outstanding	13,136	12,996
Basic (loss) earnings per share attributable to stockholders	\$(1.09)	\$0.16
Net (loss) income attributable to stockholders of Class A common stock	\$(14,353)	\$2,087
Effect of conversion of Class B common stock to shares of Class A common stock	—	—
Diluted net (loss) income attributable to stockholders of Class A common stock	\$(14,353)	\$2,087
Basic weighted average Class A common shares outstanding	13,136	12,996
Effect of dilutive Class B common stock	—	—
Effect of dilutive restricted stock units	—	272
Diluted weighted average shares outstanding	13,136	13,268
Diluted (loss) earnings per share attributable to stockholders	\$(1.09)	\$0.16

Variable Interest Entity

Spark HoldCo is a variable interest entity due to its lack of rights to participate in significant financial and operating decisions and inability to dissolve or otherwise remove its management. Spark HoldCo owns all of the outstanding membership interests in each of the operating subsidiaries through which the Company operates. The Company is the sole managing member of Spark HoldCo, manages Spark HoldCo's operating subsidiaries through this managing membership interest, and is considered the primary beneficiary of Spark HoldCo.

The assets of Spark HoldCo cannot be used to settle the obligations of the Company except through distributions to the Company, and the liabilities of Spark HoldCo cannot be settled by the Company except through contributions to Spark HoldCo.

The following table includes the carrying amounts and classification of the assets and liabilities of Spark HoldCo that are included in the Company's condensed consolidated balance sheet as of March 31, 2018 (in thousands):

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	March 31, 2018
Assets	
Current assets:	
Cash and cash equivalents	\$21,028
Accounts receivable	152,454
Other current assets	105,895
Total current assets	279,377
Non-current assets:	
Goodwill	120,154
Other assets	59,567
Total non-current assets	179,721
Total Assets	\$459,098
Liabilities	
Current liabilities:	
Accounts payable and Accrued Liabilities	\$103,084
Contingent consideration	3,043
Other current liabilities	30,212
Total current liabilities	136,339
Long-term liabilities:	
Long-term portion of Senior Credit Facility	106,500
Other long-term liabilities	16,938
Total long-term liabilities	123,438
Total Liabilities	\$259,777

6. Preferred Stock

On March 15, 2017, the Company issued 1,610,000 shares of 8.75% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock ("Series A Preferred Stock"), par value \$0.01 per share and liquidation preference \$25.00 per share, plus accumulated and unpaid dividends, at a price to the public of \$25.00 per share (\$24.21 per share to the Company, net of underwriting discounts and commissions). The Company received approximately \$39.0 million in net proceeds from the offering, after deducting underwriting discounts and commissions and a structuring fee. Offering expenses of \$1.0 million were recorded as a reduction to the carrying value of the Series A Preferred Stock. The net proceeds from the offering were contributed to Spark HoldCo to use for general corporate purposes.

On July 21, 2017, the Company entered into an At-the-Market Issuance Sales Agreement ("the ATM Agreement") with FBR Capital Markets & Co. as sales agent (the "Agent"). Pursuant to the terms of the ATM Agreement, the Company may sell, from time to time through the Agent, the Company's Series A Preferred Stock, having an aggregate offering price of up to \$50.0 million.

During the year ended December 31, 2017, the Company sold an aggregate of 94,339 shares of Series A Preferred Stock under the ATM Agreement. The Company received net proceeds of \$2.4 million and paid compensation to the sales agent of less than \$0.1 million with respect to these sales.

On January 23, 2018, the Company commenced a public offering of its Series A Preferred Stock pursuant to an effective shelf registration statement on Form S-3 previously filed with the SEC. The offering closed on January 26, 2018. As part of the January 2018 offering, the Company issued 2,000,000 shares of Series A Preferred Stock, plus

accumulated and unpaid dividends, at a price to the public of \$25.25 per share (\$24.45 per share to the Company, net of underwriting discounts and commissions). The Company received approximately \$48.9 million in net

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proceeds from the offering, after deducting underwriting discounts and commissions and a structuring fee. Offering expenses of \$0.5 million were recorded as a reduction to the carrying value of the Series A Preferred Stock. The net proceeds from the offering were contributed to Spark HoldCo to use for general corporate purposes.

During the three months ended March 31, 2018, the Company sold an aggregate of 2,917 shares of Series A Preferred Stock under the ATM Agreement. The Company received net proceeds of \$0.1 million and paid compensation to the sales agent of less than \$0.1 million with respect to these sales.

Holders of the Series A Preferred Stock have no voting rights, except in specific circumstances of delisting or in the case the dividends are in arrears as specified in the Series A Preferred Stock Certificate of Designations. From March 15, 2017, the Series A Preferred Stock issuance date, to, but not including, April 15, 2022, the Series A Preferred Stock will accrue dividends at an annual percentage rate of 8.75%.

The liquidation preference provisions of the Series A Preferred Stock are considered contingent redemption provisions because there are certain rights granted to the holders of the Series A Preferred Stock that are not solely within the control of the Company upon a change in control of the Company. Accordingly, the Series A Preferred Stock is presented within the mezzanine portion of the accompanying consolidated balance sheet.

The Company had a total of 3,707,256 shares of Series A Preferred Stock issued and outstanding at March 31, 2018 and 1,704,339 shares of Series A Preferred Stock issued and outstanding at December 31, 2017. During the three months ended March 31, 2018, the Company paid \$0.9 million in dividends to holders of the Series A Preferred Stock. As of March 31, 2018, the Company had accrued \$2.0 million related to dividends to holders of the Series A Preferred Stock. This dividend was paid on April 16, 2018.

A summary of the Company's mezzanine equity for the three months ended March 31, 2018 is as follows:

	(in thousands)
Mezzanine equity at December 31, 2017	\$ 41,173
Issuance of Series A Preferred Stock, net of issuance cost	48,490
Accumulated dividends on Series A Preferred Stock	1,095
Mezzanine equity at March 31, 2018	\$ 90,758

In connection with the issuance of the Series A Preferred Stock, the Company and Spark HoldCo entered into the Third Amended and Restated Spark HoldCo Limited Liability Company Agreement to amend the prior agreement to provide for, among other things, the designation and issuance of Spark HoldCo Series A preferred units, as another equity security of Spark HoldCo to be issued concurrently with the issuance of Series A Preferred Stock by the Company, including specific terms relating to distributions by Spark HoldCo in connection with the payment by the Company of dividends on the Series A Preferred Stock, the priority of liquidating distributions by Spark HoldCo, the allocation of income and loss to the Company in connection with distributions by Spark HoldCo on Series A preferred units, and other terms relating to the redemption and conversion by the Company of the Series A Preferred Stock.

7. Property and Equipment

Property and equipment consist of the following amounts as of (in thousands):

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	Estimated useful lives (years)	March 31, 2018	December 31, 2017
Information technology	2 – 5	\$34,677	\$34,103
Leasehold improvements	2 – 5	4,568	4,568
Furniture and fixtures	2 – 5	1,964	1,964
Building improvements	2 – 5	809	809
Total		42,018	41,444
Accumulated depreciation		(34,319)	(33,169)
Property and equipment—net		\$7,699	\$8,275

Information technology assets include software and consultant time used in the application, development and implementation of various systems including customer billing and resource management systems. As of March 31, 2018 and December 31, 2017, information technology includes \$0.1 million and \$1.2 million, respectively, of costs associated with assets not yet placed into service.

Depreciation expense recorded in the condensed consolidated statements of operations was \$1.2 million and \$0.5 million for the three months ended March 31, 2018 and 2017.

8. Goodwill, Customer Relationships and Trademarks

Goodwill, customer relationships and trademarks consist of the following amounts as of (in thousands):

	March 31, December 31, 2018 2017	
Goodwill	\$120,154	\$120,154
Customer relationships - Acquired ⁽¹⁾		
Cost	\$99,576	\$93,371
Accumulated amortization	(49,578)	(46,681)
Customer relationships - Acquired, net	\$49,998	\$46,690
Customer relationships - Other ⁽²⁾		
Cost	\$12,336	\$12,336
Accumulated amortization	(6,382)	(5,534)
Customer relationships - Other, net	\$5,954	\$6,802
Trademarks ⁽³⁾		
Cost	\$9,770	\$9,770
Accumulated amortization	(1,483)	(1,212)
Trademarks, net	\$8,287	\$8,558

(1) Customer relationships - Acquired represent those customer acquisitions accounted for under the acquisition method in accordance with ASC 805. See Note 4 "Acquisitions" for further discussion.

(2) Customer relationships - Other represent portfolios of customer contracts not accounted for in accordance with ASC 805 as these acquisitions were not in conjunction with the acquisition of businesses.

(3) Trademarks reflect values associated with the recognition and positive reputation of acquired businesses accounted for as part of the acquisition method in accordance with ASC 805 through the acquisitions of CenStar, Oasis, the Provider Companies, the Major Energy Companies and the Verde Companies. These trademarks are recorded as other assets in the condensed consolidated balance sheets. See Note 4 "Acquisitions" for further discussion.

Changes in goodwill, customer relationships and trademarks consisted of the following (in thousands):

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	Customer Relationships	Customer Goodwill - Acquired & Non-Compete - Others Agreements	Customer Relationships	Trademarks
Balance at December 31, 2017	\$ 120,154	\$ 46,690	\$ 6,802	\$ 8,558
Additions (HIKO)	—	6,205	—	—
Amortization expense	—	(2,897)	(848)	(271)
Balance at March 31, 2018	\$ 120,154	\$ 49,998	\$ 5,954	\$ 8,287

The acquired customer relationship intangibles related to the Major Energy Companies, the Provider Companies, and the Verde Companies were bifurcated between hedged and unhedged customer contracts. The unhedged customer contracts are amortized to depreciation and amortization based on the expected future cash flows by year. The hedged customer contracts were evaluated for favorable or unfavorable positions at the time of acquisition and amortized to retail cost of revenue based on the expected term and position of the underlying fixed price contract in each reporting period. For the three months ended March 31, 2018 and 2017, approximately \$1.4 million and \$1.1 million, respectively, customer relationship amortization gain is included in cost of revenues.

Estimated future amortization expense for customer relationships and trademarks at March 31, 2018 is as follows (in thousands):

Year ending December 31,

2018	16,487
2019	16,135
2020	11,715
2021	10,153
2022	5,941
> 5 years	3,808
Total	\$64,239

9. Debt

Debt consists of the following amounts (in thousands):

	March 31, 2018	December 31, 2017
Current portion of Senior Credit Facility—Bridge Loan ⁽²⁾	\$—	\$7,500
Current portion of Note Payable—Verde	11,332	13,443
Total current debt	11,332	20,943
Long-term portion of Senior Credit Facility ^{(1) (2)}	106,500	117,750
Long-term portion of Note Payable—Verde	5,900	7,051
Total long-term debt	112,400	124,801
Total debt	\$123,732	\$145,744

(1) As of March 31, 2018 and December 31, 2017, the Company had \$49.7 million and \$47.2 million in letters of credit issued, respectively.

(2) As of March 31, 2018 and December 31, 2017, the weighted average interest rate on the Senior Credit Facility was 4.64% and 4.61%, respectively.

Deferred financing costs were \$1.4 million and \$1.6 million as of March 31, 2018 and December 31, 2017, respectively. Of these amounts, \$1.2 million is recorded in other current assets in the condensed consolidated balance sheet as of March 31, 2018 and December 31, 2017, and \$0.2 million and \$0.4 million is recorded in other assets in the condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017, respectively, representing capitalized financing costs related to our Senior Credit Facility and Prior Senior Credit Facility.

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Interest expense consists of the following components for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2018	2017
Interest incurred on Senior Credit Facility	\$1,264	\$694
Accretion related to Earnouts ⁽¹⁾	—	1,225
Letters of credit fees and commitment fees	358	226
Amortization of deferred financing costs	295	248
Interest incurred on convertible subordinated notes to affiliate	—	1,052
Interest incurred on subordinated debt	1	—
Interest on Verde promissory note	327	—
Interest Expense	\$2,245	\$3,445

(1) Includes accretion related to the Major Earnout of zero for the three months ended March 31, 2018, and accretion related to the Provider Earnout of \$0.1 million and the Major Earnout of \$1.1 million for the three months ended March 31, 2017.

Senior Credit Facility

On May 19, 2017 (the “Closing Date”), the Company, as guarantor, and Spark HoldCo (the “Borrower” and, together with SE, SEG, CenStar, CenStar Operating Company, LLC, Oasis, Oasis Power, LLC, the Provider Companies, the Major Energy Companies and Perigee Energy, LLC, each subsidiaries of Spark HoldCo, the “Co-Borrowers”), entered into a senior secured borrowing base credit facility (the “Senior Credit Facility”) in an aggregate amount of \$120.0 million, which replaced the Prior Senior Credit Facility (defined below). The Verde Companies became Co-Borrowers upon the completion of our acquisition of the Verde Companies. On November 2, 2017, the Company and Co-Borrowers entered into an amendment to the Senior Credit Facility, which entitled the co-borrowers to elect to increase total commitments under the Senior Credit Facility to \$200.0 million. In connection with any such increase in commitments, the various limits on advances for Working Capital Loans, Letters of Credit and Bridge Loans increased accordingly. On November 30, 2017, we exercised the accordion feature in the Senior Credit Facility, expanding commitments to an aggregate amount of \$185.0 million. On January 11, 2018 and January 23, 2018, we exercised the accordion feature in the Senior Credit Facility for an additional \$10.0 million and \$5.0 million, respectively, in commitments by existing lenders. These exercises of the accordion feature of the Senior Credit Facility brought total commitments under the Senior Credit Facility to \$200.0 million.

As of March 31, 2018, there was \$106.5 million outstanding under the Senior Credit Facility, and there was approximately \$43.8 million available borrowing capacity (which includes a \$49.7 million reduction for outstanding letters of credit).

The Senior Credit Facility will mature on May 19, 2019, and all amounts outstanding thereunder will be payable on the maturity date. Borrowings under the Bridge Loan sublimit will be repaid 25% per year on a quarterly basis (or 6.25% per quarter), with the remainder due at maturity.

Subject to applicable sublimits and terms of the Senior Credit Facility, borrowings are available for the issuance of letters of credit (“Letters of Credit”), working capital and general purpose revolving credit loans up to \$200.0 million (“Working Capital Loans”), and bridge loans up to \$50.0 million (“Bridge Loans”) for the purpose of partial funding for acquisitions. Borrowings under the Senior Credit Facility may be used to refinance loans outstanding under the Prior Senior Credit Facility, pay fees and expenses in connection with the current Senior Credit Facility, finance ongoing working capital requirements and general corporate purpose requirements of the Co-Borrowers, to provide partial

funding for acquisitions, as allowed under terms of the Senior Credit Facility, and to make open market purchases of the Company's Class A common stock.

At our election, the interest rate for Working Capital Loans and Letters of Credit under the Senior Credit Facility is generally determined by reference to:

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the Eurodollar rate plus an applicable margin of up to 3.00% per annum (based on the prevailing utilization); or the alternate base rate plus an applicable margin of up to 2.00% per annum (based on the prevailing utilization). The alternate base rate is equal to the highest of (i) the prime rate (as published in the Wall Street Journal), (ii) the federal funds rate plus 0.50% per annum, or (iii) the reference Eurodollar rate plus 1.00%.

Bridge Loan borrowings, if any, under the Senior Credit Facility are generally determined by reference to:

the Eurodollar rate plus an applicable margin of 3.75% per annum; or the alternate base rate plus an applicable margin of 2.75% per annum. The alternate base rate is equal to the highest of (i) the prime rate (as published in the Wall Street Journal), (ii) the federal funds rate plus 0.50% per annum, or (iii) the reference Eurodollar rate plus 1.00%.

The Co-Borrowers will pay a commitment fee of 0.50% quarterly in arrears on the unused portion of the Senior Credit Facility. In addition, the Co-Borrowers will be subject to additional fees including an upfront fee, an annual agency fee, and letter of credit fees based on a percentage of the face amount of letters of credit payable to any syndicate member that issues a letter of credit.

The Senior Credit Facility contains covenants that, among other things, require the maintenance of specified ratios or conditions as follows:

Minimum Fixed Charge Coverage Ratio. Spark Energy, Inc. must maintain a minimum fixed charge coverage ratio of not less than 1.25 to 1.00. The Fixed Charge Coverage Ratio is defined as the ratio of (a) Adjusted EBITDA to (b) the sum of consolidated (with respect to the Company and the Co-Borrowers) interest expense (other than interest paid-in-kind in respect of any Subordinated Debt but including interest in respect of that certain promissory note made by CenStar Energy Corp in connection with the permitted acquisition from Verde Energy USA Holdings, LLC), letter of credit fees, commitment fees, acquisition earn-out payments (excluding earnout payments funded with proceeds from newly issued preferred or common equity of the Company), distributions, the aggregate amount of repurchases of the Company's Class A common stock or commitments for such purchases, taxes and scheduled amortization payments.

Maximum Total Leverage Ratio. Spark Energy, Inc. must maintain a ratio of total indebtedness (excluding eligible subordinated debt) to Adjusted EBITDA of no more than 2.00 to 1.00.

The Senior Credit Facility contains various negative covenants that limit the Company's ability to, among other things, do any of the following:

- incur certain additional indebtedness;
- grant certain liens;
- engage in certain asset dispositions;
- merge or consolidate;
- make certain payments, distributions, investments, acquisitions or loans;
- materially modify certain agreements; or
- enter into transactions with affiliates.

The Senior Credit Facility is secured by pledges of the equity of the portion of Spark HoldCo owned by the Company, the equity of Spark HoldCo's subsidiaries, the Co-Borrowers' present and future subsidiaries, and substantially all of the Co-Borrowers' and their subsidiaries' present and future property and assets, including accounts receivable, inventory and liquid investments, and control agreements relating to bank accounts.

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Spark Energy, Inc. is entitled to pay cash dividends to the holders of the Series A Preferred Stock and Class A common stock and will be entitled to repurchase up to an aggregate amount of 10,000,000 shares of the Company's Class A common stock through one or more normal course open market purchases through NASDAQ so long as: (a) no default exists or would result therefrom; (b) the Co-Borrowers are in pro forma compliance with all financial covenants before and after giving effect thereto; and (c) the outstanding amount of all loans and letters of credit does not exceed the borrowing base limits.

The Senior Credit Facility contains certain customary representations and warranties and events of default. Events of default include, among other things, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults and cross-acceleration to certain indebtedness, certain events of bankruptcy, certain events under ERISA, material judgments in excess of \$5.0 million, certain events with respect to material contracts, actual or asserted failure of any guaranty or security document supporting the Senior Credit Facility to be in full force and effect, failure of Nathan Kroeker to retain his position as President and Chief Executive Officer of the Company, and failure of W. Keith Maxwell III to retain his position as chairman of the board of directors. A default will also occur if at any time W. Keith Maxwell III ceases to, directly or indirectly, own at least 13,600,000 Class A and Class B shares on a combined basis (to be adjusted for any stock split, subdivisions or other stock reclassification or recapitalization), and a controlling percentage of the voting equity interest of the Company, and certain other changes in control. If such an event of default occurs, the lenders under the Senior Credit Facility would be entitled to take various actions, including the acceleration of amounts due under the facility and all actions permitted to be taken by a secured creditor.

In addition, the Senior Credit Facility contains affirmative covenants that are customary for credit facilities of this type. The covenants include delivery of financial statements, including any filings made with the SEC, maintenance of property and insurance, payment of taxes and obligations, material compliance with laws, inspection of property, books and records and audits, use of proceeds, payments to bank blocked accounts, notice of defaults and certain other customary matters.

Subordinated Debt Facility

On December 27, 2016, we and Spark HoldCo jointly issued to Retailco, an entity owned by our Founder, a 5% subordinated note in the principal amount of up to \$25.0 million. The subordinated note allows the Company and Spark HoldCo to draw advances in increments of no less than \$1.0 million per advance up to the maximum principal amount of the subordinated note. The subordinated note matures in July 2020, and advances thereunder accrue interest at 5% per annum from the date of the advance. The Company has the right to capitalize interest payments under the subordinated note. The subordinated note is subordinated in certain respects to the Company's Senior Credit Facility pursuant to a subordination agreement. The Company may pay interest and prepay principal on the subordinated note so long as it is in compliance with its covenants under the Senior Credit Facility, is not in default under the Senior Credit Facility and has minimum availability of \$5.0 million under the borrowing base under the Senior Credit Facility. Payment of principal and interest under the subordinated note is accelerated upon the occurrence of certain change of control or sale transactions. As of March 31, 2018 and December 31, 2017, respectively, there were no outstanding borrowings under the subordinated note.

Verde Companies Promissory Note

In connection with the financing of the Verde Companies acquisition, on July 1, 2017, CenStar issued a Promissory Note in the aggregate principal amount of \$20.0 million (the "Verde Promissory Note") for a portion of the purchase price. The Verde Promissory Note required eighteen monthly installments beginning on August 1, 2017, and accrued interest at 5% per annum from the date of issuance. The Verde Promissory Note, including principal and interest, was unsecured, but is guaranteed by the Company. Payment of principal and interest under the Verde Promissory Note was accelerated upon the occurrence of certain events of default.

On January 12, 2018, in connection with the Earnout Termination Agreement (defined below), CenStar issued to the seller of the Verde Companies an amended and restated promissory note (the “Amended and Restated Verde

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Promissory Note”), which amended and restated the Verde Promissory Note. The Amended and Restated Verde Promissory Note, effective January 12, 2018, retains the same maturity date as the Verde Promissory Note. The Amended and Restated Verde Promissory Note bears interest at a rate of 9% per annum beginning January 1, 2018. Principal and interest remain payable monthly on the first day of each month in which the Amended and Restated Verde Promissory Note is outstanding. CenStar will continue to deposit a portion of each payment under the Amended and Restated Verde Promissory Note into an escrow account, which serves as security for certain indemnification claims and obligations under the purchase agreement. The amount deposited into the escrow account has been increased from the Verde Promissory Note. All principal and interest payable under the Amended and Restated Verde Promissory Note remains subject to acceleration upon the occurrence of certain events of default, including the failure to pay any principal or interest when due under the Amended and Restated Verde Promissory Note. As of December 31, 2017, there was \$14.6 million outstanding under the Verde Promissory note. As of March 31, 2018, there was \$11.3 million outstanding under the Amended and Restated Verde Promissory Note, which will be paid in monthly installments through January 2019.

Verde Earnout Termination Note

On January 12, 2018, we entered into an Agreement to Terminate Earnout Payments (the “Earnout Termination Agreement”) that terminates our obligation to make any required earnout payments under the purchase agreement for our acquisition of the Verde Companies in exchange for CenStar’s issuance to the seller of a promissory note in the principal amount of \$5.9 million (the “Verde Earnout Termination Note”). The Verde Earnout Termination Note, effective January 12, 2018, matures on June 30, 2019 (subject to early maturity upon certain events) and bears interest at a rate of 9% per annum. CenStar is permitted to withhold amounts otherwise due at maturity related to certain indemnifiable matters under the purchase agreement for our acquisition of the Verde Companies. Interest is payable monthly on the first day of each month in which the Verde Earnout Termination Note is outstanding, beginning on its issuance date. The principal and any outstanding interest is due on June 30, 2019. All principal and interest payable under the Verde Earnout Termination Note is accelerated upon the occurrence of certain events of default, including the failure to pay any principal or interest when due under the Verde Earnout Termination Note. The Company recorded the Verde Earnout Termination Note of \$5.9 million as long-term debt as of March 31, 2018 and December 31, 2017.

Prior Senior Credit Facility

The Company, as guarantor, and Spark HoldCo (together with Spark Energy, LLC, Spark Energy Gas, LLC, CenStar Energy Corp, CenStar Operating Company, LLC, Oasis, Oasis Power, LLC, Electricity Maine, LLC, Electricity N.H., LLC, and Provider Power Mass, LLC, each a subsidiary of Spark HoldCo, as co-borrowers) were party to a senior secured revolving credit facility (“Prior Senior Credit Facility”), which included a senior secured revolving working capital facility up to \$82.5 million (“Working Capital Line”) and a secured revolving line of credit of \$25.0 million (“Acquisition Line”) to be used specifically for the financing of up to 75% of the cost of acquisitions with the remainder to be financed by the Company either through cash on hand or the issuance of subordinated debt or equity.

The Prior Senior Credit Facility had a maturity date of July 8, 2017. The outstanding balances under the Working Capital Line and the Acquisition Line were paid in full on May 19, 2017 upon execution of the Company's new Senior Credit Facility.

10. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Fair values are based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. This includes not only the credit standing of

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counterparties involved and the impact of credit enhancements but also the impact of the Company's own nonperformance risk on its liabilities.

The Company applies fair value measurements to its commodity derivative instruments and a contingent payment arrangement based on the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1—Quoted prices in active markets for identical assets and liabilities. Instruments categorized in Level 1 primarily consist of financial instruments such as exchange-traded derivative instruments.
- Level 2—Inputs other than quoted prices recorded in Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 primarily include non-exchange traded derivatives such as over-the-counter commodity forwards and swaps and options.
- Level 3—Unobservable inputs for the asset or liability, including situations where there is little, if any, observable market activity for the asset or liability. The Level 3 category includes estimated earnout obligations related to the Company's acquisitions.

As the fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3), the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In these cases, the lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy.

Other Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, accounts receivable—affiliates, accounts payable, accounts payable—affiliates, and accrued liabilities recorded in the condensed consolidated balance sheets approximate fair value due to the short-term nature of these items. The carrying amounts of the Senior Credit Facility and Prior Senior Credit Facility recorded in the condensed consolidated balance sheets approximate fair value because of the variable rate nature of the Company's line of credit. The fair value of our convertible subordinated notes to affiliates is not determinable for accounting purposes due to the affiliate nature and terms of the associated debt instrument with the affiliate. The fair value of the payable pursuant to tax receivable agreement—affiliate is not determinable for accounting purposes due to the affiliate nature and terms of the associated agreement with the affiliate.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents assets and liabilities measured and recorded at fair value in the Company's condensed consolidated balance sheets on a recurring basis by and their level within the fair value hierarchy as of (in thousands):

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	Level 1	Level 2	Level 3	Total
March 31, 2018				
Non-trading commodity derivative assets	\$8	\$8,090	\$—	\$8,098
Trading commodity derivative assets	4	125	—	129
Total commodity derivative assets	\$12	\$8,215	\$—	\$8,227
Non-trading commodity derivative liabilities	\$(118)	\$(22,316)	\$—	\$(22,434)
Trading commodity derivative liabilities	(912)	(39)	—	(951)
Total commodity derivative liabilities	\$(1,030)	\$(22,355)	\$—	\$(23,385)
Contingent payment arrangement	\$—	\$—	\$(3,043)	\$(3,043)

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Non-trading commodity derivative assets	\$158	\$33,886	\$—	\$34,044
Trading commodity derivative assets	—	456	—	456
Total commodity derivative assets	\$158	\$34,342	\$—	\$34,500
Non-trading commodity derivative liabilities	\$(387)	\$(950)	\$—	\$(1,337)
Trading commodity derivative liabilities	(555)	(237)	—	(792)
Total commodity derivative liabilities	\$(942)	\$(1,187)	\$—	\$(2,129)
Contingent payment arrangement	\$—	\$—	\$(4,650)	\$(4,650)

The Company had no transfers of assets or liabilities between any of the above levels during the three months ended March 31, 2018 and the year ended December 31, 2017.

The Company's derivative contracts include exchange-traded contracts fair valued utilizing readily available quoted market prices and non-exchange-traded contracts fair valued using market price quotations available through brokers or over-the-counter and on-line exchanges. In addition, in determining the fair value of the Company's derivative contracts, the Company applies a credit risk valuation adjustment to reflect credit risk, which is calculated based on the Company's or the counterparty's historical credit risks. As of March 31, 2018 and December 31, 2017, the credit risk valuation adjustment was not material.

The contingent payment arrangements referred to above reflect estimated earnout obligations incurred in relation to the Company's acquisitions. As of March 31, 2018 and December 31, 2017, the estimated earnout obligations were \$3.0 million and \$4.6 million, respectively, which related to the Major Earnout in the amount of \$3.0 million and \$4.6 million, respectively. The Major Stock Earnout was valued at zero at March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, the estimated earnouts are recorded on our condensed consolidated balance sheets in current liabilities—contingent consideration in the amount of \$3.0 million; and as of December 31, 2017, in current liabilities—contingent consideration and long-term liabilities—contingent consideration in the amount of \$4.0 million and \$0.6 million, respectively.

The Provider Earnout was based on achievement by the Provider Companies of a certain customer count criteria over the nine month period following the closing of the Provider Companies acquisition on August 1, 2016. The sellers of the Provider Companies were entitled to a maximum of \$9.0 million and a minimum of \$5.0 million in earnout payments based on the level of customer count attained, as defined by the Provider Companies membership interest purchase agreement. In March and June 2017, the Company paid the sellers of the Provider Companies \$1.0 million and \$4.5 million, respectively, related to the earnout based on the achievement of certain customer count and sales targets. During the three months ended March 31, 2017, the Company recorded accretion of \$0.1 million to reflect the impact of the time value of the liability prior to the final payment in June 2017. The Company revalued the liability at March 31, 2017 with no expected change of the earnout payments for the three months ended March 31, 2017. The final payment for the Provider Earnout was made in June 2017. In determining the fair value of the Provider Earnout, the Company forecasted an expected customer count and certain other related criteria

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and calculated the probability of such forecast being attained. As this calculation was based on management's estimates of the liability, we classified the Provider Earnout as a Level 3 measurement.

The Major Earnout is based on the achievement by the Major Energy Companies of certain performance targets over the 33 month period following NG&E's closing of the Major Energy Companies acquisition (i.e., April 15, 2016). The previous members of Major Energy Companies are entitled to a maximum of \$20.0 million in earnout payments based on the level of performance targets attained, as defined by the Major Purchase Agreement. The Stock Earnout obligation is contingent upon the Major Energy Companies achieving the Major Earnout's performance target ceiling, thereby earning the maximum Major Earnout payments. If the Major Energy Companies earn such maximum Major Earnout payments, NG&E would be entitled to a maximum of 400,000 shares of Class B common stock (and a corresponding number of Spark HoldCo units). In determining the fair value of the Major Earnout and the Stock Earnout, the Company forecasted certain expected performance targets and calculated the probability of such forecast being attained. In March 2018 and 2017, the Company paid the previous members of the Major Energy Companies \$1.6 million and \$7.4 million, respectively, related to the year ended December 31, 2017 and the period from April 15, 2016 through December 31, 2016, respectively. During the three months ended March 31, 2018 and 2017, the Company recorded accretion of zero and \$1.2 million, respectively, to reflect the impact of the time value of the liability. The Company revalued the liability at March 31, 2018, resulting in no change to the fair value of the liability. As this calculation is based on management's estimates of the liability, we classified the Major Earnout as a Level 3 measurement.

The following table presents a reconciliation of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2018.

	Major Earnout and Stock Earnout
Fair Value at December 31, 2017	\$4,650
Change in fair value of contingent consideration, net	—
Accretion of contingent earnout consideration (included within interest expense)	—
Payments and settlements	(1,607)
Fair Value at March 31, 2018	\$3,043

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

We apply the provisions of the fair value measurement standard to our non-recurring, non-financial measurements including business combinations as well as impairment related to goodwill and other long-lived assets. For business combinations (see Note 4 "Acquisitions"), the purchase price is allocated to the assets acquired and liabilities assumed based on a discounted cash flow model for most intangibles as well as market assumptions for the valuation of equipment and other fixed assets. We utilize a discounted cash flow model in evaluating impairment considerations related to goodwill and long-lived assets. Given the unobservable nature of the inputs, the discounted cash flow models are considered to use Level 3 inputs.

11. Accounting for Derivative Instruments

The Company is exposed to the impact of market fluctuations in the price of electricity and natural gas and basis costs, storage and ancillary capacity charges from independent system operators. The Company uses derivative instruments to manage exposure to these risks, and historically designated certain derivative instruments as cash flow hedges for accounting purposes.

The Company holds certain derivative instruments that are not held for trading purposes and are not designated as hedges for accounting purposes. These derivative instruments represent economic hedges that mitigate the Company's exposure to fluctuations in commodity prices. For these derivative instruments, changes in the fair value are recognized currently in earnings in retail cost of revenues.

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As part of the Company's strategy to optimize its assets and manage related risks, it also manages a portfolio of commodity derivative instruments held for trading purposes. The Company's commodity trading activities are subject to limits within the Company's Risk Management Policy. For these derivative instruments, changes in the fair value are recognized currently in earnings in net asset optimization revenues.

Derivative assets and liabilities are presented net in the Company's condensed consolidated balance sheets when the derivative instruments are executed with the same counterparty under a master netting arrangement. The Company's derivative contracts include transactions that are executed both on an exchange and centrally cleared as well as over-the-counter, bilateral contracts that are transacted directly with a third party. To the extent the Company has paid or received collateral related to the derivative assets or liabilities, such amounts would be presented net against the related derivative asset or liability's fair value. As of March 31, 2018 and December 31, 2017, the Company had paid \$5.7 million and \$0.1 million in collateral outstanding, respectively. The specific types of derivative instruments the Company may execute to manage the commodity price risk include the following:

- Forward contracts, which commit the Company to purchase or sell energy commodities in the future;
- Futures contracts, which are exchange-traded standardized commitments to purchase or sell a commodity or financial instrument;
- Swap agreements, which require payments to or from counterparties based upon the differential between two prices for a predetermined notional quantity; and
- Option contracts, which convey to the option holder the right but not the obligation to purchase or sell a commodity.

The Company has entered into other energy-related contracts that do not meet the definition of a derivative instrument or qualify for the normal purchase or normal sale exception and are therefore not accounted for at fair value, including the following:

- Forward electricity and natural gas purchase contracts for retail customer load, and
- Natural gas transportation contracts and storage agreements.

Volumetric Underlying Derivative Transactions

The following table summarizes the net notional volume buy/(sell) of the Company's open derivative financial instruments accounted for at fair value, broken out by commodity, as of (in thousands):

Non-trading

	March 31, 2018	December 31, 2017
Commodity Notional		

Natural Gas MMBtu	5,585	9,191
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Electricity MWh	7,787	8,091
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Trading

	March 31, 2018	December 31, 2017
Commodity Notional		

Natural Gas MMBtu	190	26
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Natural Gas Basis MMBtu	75	(225)
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Gains (Losses) on Derivative Instruments

Gains (losses) on derivative instruments, net and current period settlements on derivative instruments were as follows for the periods indicated (in thousands):

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	Three Months Ended March 31,	
	2018	2017 ⁽¹⁾
Loss on non-trading derivatives, net	(36,712)	\$(21,376)
Gain (loss) on trading derivatives, net	170	(420)
Loss on derivatives, net	(36,542)	(21,796)
Current period settlements on non-trading derivatives ^{(2) (3) (4) (5) (6)}	(14,882)	7,515
Current period settlements on trading derivatives	(655)	(160)
Total current period settlements on derivatives	\$(15,537)	\$7,355

Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by (1) an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

(2) Excludes settlements of zero and less than \$0.1 million, respectively, for the three months ended March 31, 2018 and 2017 related to non-trading derivative liabilities assumed in the acquisitions of CenStar and Oasis.

(3) Excludes settlements of \$(0.8) million and \$(1.3) million, respectively, for the three months ended March 31, 2018 and 2017 related to non-trading derivative liabilities assumed in the acquisitions of the Provider Companies and Major Energy Companies.

(4) Excludes settlements of \$(0.1) million and zero for the three months ended March 31, 2018 and 2017 related to non-trading derivative liabilities assumed in the acquisitions of Perigee and other customers.

(5) Excludes settlements of less than \$0.1 million for the three months ended March 31, 2018 related to non-trading derivative liabilities assumed in the acquisition of the Verde Companies.

(6) Excludes settlements of \$0.1 million for the three months ended March 31, 2018 related to non-trading derivative liabilities assumed in the acquisition of the HIKO Companies.

Gains (losses) on trading derivative instruments are recorded in net asset optimization revenues, and gains (losses) on non-trading derivative instruments are recorded in retail cost of revenues on the condensed consolidated statements of operations.

Fair Value of Derivative Instruments

The following tables summarize the fair value and offsetting amounts of the Company's derivative instruments by counterparty and collateral received or paid as of (in thousands):

	March 31, 2018				
Description	Gross Assets	Gross Liabilities	Net Assets	Cash Collateral	Net Amount Presented
		Offset		Offset	
Non-trading commodity derivatives	\$20,777	\$(12,941)	\$ 7,836	\$	—\$ 7,836
Trading commodity derivatives	140	(11)	129	—	129
Total Current Derivative Assets	\$20,917	\$(12,952)	\$ 7,965	\$	—\$ 7,965
Non-trading commodity derivatives	\$1,546	\$(1,284)	\$ 262	\$	—\$ 262
Trading commodity derivatives	\$—	\$—	\$ —	\$	—\$ —
Total Non-current Derivative Assets	\$1,546	\$(1,284)	\$ 262	\$	—\$ 262
Total Derivative Assets	\$22,463	\$(14,236)	\$ 8,227	\$	—\$ 8,227

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March 31, 2018					
Description	Gross Liabilities	Gross Amounts Offset	Net Liabilities	Cash Collateral Offset	Net Amount Presented
Non-trading commodity derivatives	\$(34,454)	\$16,486	\$(17,968)	\$ 5,660	\$(12,308)
Trading commodity derivatives	(50)	11)	(39)	—	(39)
Total Current Derivative Liabilities	\$(34,504)	\$16,497	\$(18,007)	\$ 5,660	\$(12,347)
Non-trading commodity derivatives	\$(17,051)	\$6,925	\$(10,126)	\$ —	\$(10,126)
Trading commodity derivatives	\$(932)	\$20)	\$(912)	\$ —	\$(912)
Total Non-current Derivative Liabilities	\$(17,983)	\$6,945	\$(11,038)	\$ —	\$(11,038)
Total Derivative Liabilities	\$(52,487)	\$23,442	\$(29,045)	\$ 5,660	\$(23,385)

December 31, 2017					
Description	Gross Assets	Gross Amounts Offset	Net Assets	Cash Collateral Offset	Net Amount Presented
Non-trading commodity derivatives	\$60,167	\$(29,432)	\$ 30,735	\$ —	—\$ 30,735
Trading commodity derivatives	918	(462)	456	—	456
Total Current Derivative Assets	61,085	(29,894)	31,191	—	31,191
Non-trading commodity derivatives	16,055	(12,746)	3,309	—	3,309
Trading commodity derivatives	—	—	—	—	—
Total Non-current Derivative Assets	16,055	(12,746)	3,309	—	3,309
Total Derivative Assets	\$77,140	\$(42,640)	\$ 34,500	\$ —	—\$ 34,500

December 31, 2017					
Description	Gross Liabilities	Gross Amounts Offset	Net Liabilities	Cash Collateral Offset	Net Amount Presented
Non-trading commodity derivatives	\$(4,517)	\$3,059	\$(1,458)	\$ 65	\$(1,393)
Trading commodity derivatives	(517)	273)	(244)	—	(244)
Total Current Derivative Liabilities	(5,034)	3,332)	(1,702)	65	(1,637)
Non-trading commodity derivatives	(676)	732)	56	—	56
Trading commodity derivatives	(566)	18)	(548)	—	(548)
Total Non-current Derivative Liabilities	(1,242)	750)	(492)	—	(492)
Total Derivative Liabilities	\$(6,276)	\$4,082	\$(2,194)	\$ 65	\$(2,129)

12. Income Taxes

Income Taxes

The Company, CenStar and Verde Energy USA, Inc. (Verde Corp) are each subject to U.S. federal income tax as corporations. CenStar and Verde Corp will file consolidated tax returns in jurisdictions that allow combined reporting. Spark HoldCo and its subsidiaries, with the exception of CenStar and Verde Corp, are treated as flow-through entities for U.S. federal income tax purposes, and, as such, are generally not subject to U.S. federal income tax at the entity level. Rather, the tax liability with respect to their taxable income is passed through to their members or partners. Accordingly, the Company is subject to U.S. federal income taxation on its allocable share of Spark HoldCo's net U.S. taxable income.

The Company reports federal and state income taxes for its share of the partnership income attributable to its ownership in Spark HoldCo and for the income taxes attributable to CenStar, a C-corporation, which is owned by

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Spark HoldCo. The income tax liability for the partnership does not accrue to the partnership, but rather the investors are responsible for the income taxes based upon the investor's share of the partnership's income. Net income attributable to the non-controlling interest in CenStar includes the provision for income taxes.

The Company accounts for income taxes using the assets and liabilities method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and the tax bases of the assets and liabilities. The Company applies existing tax law and the tax rate that the Company expects to apply to taxable income in the years in which those differences are expected to be recovered or settled in calculating the deferred tax assets and liabilities. Effects of changes in tax rates on deferred tax assets and liabilities are recognized in income in the period of the tax rate enactment. A valuation allowance is recorded when it is not more likely than not that some or all of the benefit from the deferred tax asset will be realized.

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("U.S. Tax Reform"), which enacts a wide range of changes to the U.S. Corporate income tax system. For U.S. federal purposes, a corporate statutory income tax rate of 21% was utilized for the 2018 tax year. The Company remeasured its U.S. federal deferred tax assets and liabilities as of December 31, 2017 using the newly enacted 21% corporate tax rate, the rate expected to be applied when the temporary differences are settled. The Company has not revised any of the 2017 provisional estimates under SAB No. 118 and ASU No 2018-05, but is continuing to gather information and is waiting on further guidance from the IRS, SEC and FASB on U.S. Tax Reform.

The Company periodically assesses whether it is more likely than not that it will generate sufficient taxable income to realize its deferred income tax assets. In making this determination, the Company considers all available positive and negative evidence and makes certain assumptions. The Company considers, among other things, its deferred tax liabilities, the overall business environment, its historical earnings and losses, current industry trends, and its outlook for future years. The Company believes it is more likely than not that the deferred tax assets will be utilized.

The Company had a net deferred tax asset of approximately \$15.6 million related to the step up in tax basis resulting from the purchase by the Company of Spark HoldCo units from NuDevco Retail and NuDevco Retail Holdings (predecessor to Retailco) on the IPO date. In addition, as of March 31, 2018, the Company had a total liability of \$32.3 million for the effect of the Tax Receivable Agreement liability, with approximately \$5.9 million classified as short-term liability and the remainder as a long-term liability. The Company had a long-term deferred tax asset of approximately \$8.2 million related to the Tax Receivable Agreement liability. See Note 14 "Transactions with Affiliates" for further discussion.

The effective U.S. federal and state income tax rate for the three months ended March 31, 2018 and 2017 is 13.4% and 17.8%, respectively, with respect to pre-tax income attributable to the Company's stockholders. The lower effective tax rate for the three months ended March 31, 2018 is primarily attributable to the impact of the lower corporate U.S. federal statutory tax rate of 21% enacted for 2018, applied to the mix of earnings between corporate and partnership income.

Total income tax benefit for the three months ended March 31, 2018 differed from amounts computed by applying the U.S. federal statutory tax rates to pre-tax income primarily due to state taxes and the impact of permanent differences between book and taxable income, most notably the income attributable to non-controlling interest. The effective tax rate includes a rate benefit attributable to the fact that Spark HoldCo operates as a limited liability company treated as a partnership for federal and state income tax purposes and is not subject to federal and state income taxes.

Accordingly, the portion of earnings attributable to non-controlling interest is subject to tax when reported as a component of the non-controlling interest's taxable income.

13. Commitments and Contingencies

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From time to time, the Company may be involved in legal, tax, regulatory and other proceedings in the ordinary course of business. Other than proceedings discussed below, management does not believe that we are a party to any litigation, claims or proceedings that will have a material impact on the Company's condensed consolidated financial condition or results of operations. Liabilities for loss contingencies arising from claims, assessments, litigations or other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Indirect Tax Audits

The Company is undergoing various types of indirect tax audits spanning from years 2009 to 2017 for which the Company may have additional liabilities arise. At the time of filing these condensed consolidated financial statements, these indirect tax audits are at an early stage and subject to substantial uncertainties concerning the outcome of audit findings and corresponding responses. As of March 31, 2018, we have accrued \$0.4 million related to indirect tax audits. The outcome of these indirect tax audits may result in additional expense.

Legal Proceedings

The Company is the subject of the following lawsuits. At the time of filing these combined and consolidated financial statements, this litigation is at an early stage and subject to substantial uncertainties concerning the outcome of material factual and legal issues. Accordingly, we cannot currently predict the manner and timing of the resolution of this litigation or estimate a range of possible losses or a minimum loss that could result from an adverse verdict in a potential lawsuit.

Halifax-American Energy Company, LLC et al v. Provider Power, LLC, Electricity N.H., LLC, Electricity Maine, LLC, Emile Clavet and Kevin Dean is a lawsuit initially filed on June 12, 2014, in the Rockingham County Superior Court, State of New Hampshire, alleging various claims related to the Provider Companies' employment of a sales contractor formerly employed with one or more of the plaintiffs, including misappropriation of trade secrets and tortious interference with a contractual relationship. The relief sought included compensatory and punitive damages and attorney's fees. The dispute occurred prior to the Company's acquisition of the Provider Companies. Portions of the original claim proceeded to trial and on January 19, 2016, a jury found in favor of the plaintiffs. Damages totaling approximately \$0.6 million and attorney's fees totaling approximately \$0.3 million were awarded to the plaintiffs. On May 4, 2016, following post-verdict motions, the defendants filed an appeal in the State of New Hampshire Supreme Court, appealing, among other things the failure of the trial court to direct a verdict for the defendants, to set aside the verdict, or grant judgment for the defendants, and the trial court's award of certain attorneys' fees. The appellate hearing was held on June 1, 2017. The New Hampshire Supreme Court decided the appeal on February 9, 2018, upholding the jury's verdict and the trial court's rulings in all respects. On March 21, 2018, the trial court awarded Final Judgment to plaintiffs in the amount of \$0.9 million, pursuant to the parties' Joint Stipulation regarding Judgment. On March 28, 2018, plaintiffs moved to modify the final judgment because it does not factor in statutory interest. The trial court granted the motion to modify the judgment on April 6, 2018 and costs were assessed in the matter on April 5, 2018. The judgment, with costs, attorney fees, and interest total \$1.0 million. As of March 31, 2018, the Company has accrued approximately \$1.0 million in contingent liabilities related to this litigation. Initial damages and attorneys' fees have been factored into the purchase price for the Provider Companies, and the Company believes it has full indemnity coverage for any actual exposure in this award.

Katherine Veilleux and Jennifer Chon, individually and on behalf of all other similarly situated v. Electricity Maine, LLC, Provider Power, LLC, Spark HoldCo, LLC, Kevin Dean and Emile Clavet is a purported class action lawsuit filed on November 18, 2016 in the United States District Court of Maine, alleging that Electricity Maine, LLC, an entity acquired by Spark HoldCo, LLC in mid-2016, enrolled and re-enrolled customers through fraudulent and misleading advertising, promotions, and other communications prior to the acquisition. Plaintiffs further allege that

some improper enrollment and re-enrollment practices have continued to the present date. Plaintiffs allege the following claims against all defendants: violation of the Maine Unfair Trade Practices Act, violation of RICO, negligence, negligent misrepresentation, fraudulent misrepresentation, unjust enrichment and breach of contract.

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Plaintiffs seek unspecified damages for themselves and the purported class, rescission of contracts with Electricity Maine, injunctive relief, restitution, and attorney's fees. By order dated November 15, 2017, the Court, pursuant to Rule 12(b)(6), dismissed all claims against Spark HoldCo except the claims for violation of the Maine Unfair Trade Practices Act and for unjust enrichment. Discovery limited to issues relevant to class certification under Rule 23 of the Federal Rules of Civil Procedure has just begun. Spark HoldCo intends to vigorously defend this matter and the allegations asserted therein, including the request to certify a class. Given the early stages of this matter, we cannot predict the outcome or consequences of this case at this time. The Company believes it is fully indemnified for this litigation matter, subject to certain limitations.

Gillis et al. v. Respond Power, LLC is a purported class action lawsuit that was originally filed on May 21, 2014 in the Philadelphia Court of Common Pleas. On June 23, 2014, the case was removed to the United States District Court for the Eastern District of Pennsylvania. On September 15, 2014, the plaintiffs filed an amended class action complaint seeking a declaratory judgment that the disclosure statement contained in Respond Power, LLC's variable rate contracts with Pennsylvania consumers limited the variable rate that could be charged to no more than the monthly rate charged by the consumers' local utility company. The plaintiffs also allege that Respond Power, LLC (i) breached its variable rate contract with Pennsylvania consumers, and the covenant of good faith and fair dealing therein, by charging rates in excess of the monthly rate charged by the consumers' local utility company; (ii) engaged in deceptive conduct in violation of the Pennsylvania Unfair Trade Practices and Consumer Protection Law; and (iii) engaged in negligent misrepresentation and fraudulent concealment in connection with purported promises of savings. The amount of damages sought is not specified. By order dated August 31, 2015, the district court denied class certification. The plaintiffs appealed the district court's denial of class certification to the United States Court of Appeals for the Third Circuit. The United States Court of Appeals for the Third Circuit vacated the district court's denial of class certification and remanded the matter to the district court for further proceedings. The district court ordered briefing on defendant's motion to dismiss. Respond Power LLC filed a motion to dismiss the plaintiffs' declaratory judgment and breach of contract claims (the class claims) on June 30, 2017. The motion is fully briefed and submitted, and the parties are awaiting a decision from the Court. The Company currently cannot predict the outcome or consequences of this case at this time. The Company believes it is fully indemnified for this litigation matter, subject to certain limitations.

Jurich v. Verde Energy USA, Inc., is a class action originally filed on March 3, 2015 in the United States District Court for the District of Connecticut and subsequently re-filed on October 8, 2015 in the Superior Court of Judicial District of Hartford, State of Connecticut. The Amended Complaint asserts that the Verde Companies charged rates in violation of its contracts with Connecticut customers and alleges (i) violation of the Connecticut Unfair Trade Practices Act, Conn. Gen. Stat. §§ 42-110a et seq., and (ii) breach of the covenant of good faith and fair dealing. Plaintiffs are seeking unspecified actual and punitive damages for the class and injunctive relief. The parties have exchanged initial discovery. Plaintiffs' motion for class certification was briefed and the Verde Companies filed its opposition to plaintiffs' motion for class certification on October 17, 2017. On December 6, 2017, the Court granted the plaintiffs' class certification motion. However, the Court opted not to send out class notices, and instead directed the parties to submit briefing on legal issues that could result in a modification or decertification of the class. The parties completed that briefing on April 16, 2018. The parties expect the court to schedule oral argument at some point in spring or summer 2018. As part of an agreement in connection with the acquisition of the Verde Companies, the original owners of the Verde Companies are handling this matter. Given the early stage of this matter, we cannot predict the outcome or consequences of this case at this time.

Richardson et al v. Verde Energy USA, Inc. is a purported class action filed on November 25, 2015 in the United States District Court for the Eastern District of Pennsylvania alleging that the Verde Companies violated the Telephone Consumer Protection Act by placing marketing calls using an automatic telephone dialing system or a prerecorded voice to the purported class members' cellular phones without prior express consent and by continuing to make such calls after receiving requests for the calls to cease. Plaintiffs are seeking statutory damages for the

purported class and injunctive relief prohibiting Verde Companies' alleged conduct. Discovery on the claims of the named plaintiffs closed on November 10, 2017, and dispositive motions on the named plaintiffs' claims were filed on November 24, 2017. Plaintiffs' responses to the dispositive motions were filed on December 22, 2017 and Verde Companies' reply briefs were filed on January 5, 2018. To date, no hearing has been set on these motions. On

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March 19, 2018, Plaintiffs filed a Notice of Supplemental Authority regarding the D.C. Circuit's decision in *ACA Int'l v. FCC*. Verde Companies filed a Notice of Supplemental Authority regarding the ACA decision on March 23, 2018. As part of an agreement in connection with the acquisition of the Verde Companies, the original owners of the Verde Companies are handling this matter. Given the early stages of this matter, we cannot predict the outcome or consequences of this case at this time.

Saul Horowitz, as Sellers' Representative for the former owners of the Major Energy Companies v. National Gas & Electric, LLC (NG&E) and Spark Energy, Inc. (Spark), has filed a lawsuit asserting claims of fraudulent inducement against NG&E, breach of contract against NG&E and the Company, and tortious interference with contract against the Company related to the membership interest purchase, subsequent transfer, and associated earnout agreements with the Major Energy Companies' former owners. The relief sought includes unspecified compensatory and punitive damages, prejudgment and post judgment interest, and attorneys' fees. The lawsuit was filed on October 10, 2017 in the United States District Court for the Southern District of New York, and after the Company and NG&E filed a motion to dismiss, Horowitz filed an Amended Complaint, asserting the same four claims. The Company and NG&E filed a motion to dismiss the fraud and tortious interference claims on January 15, 2018. Briefing on the motion to dismiss concluded on March 1, 2018, and the Court's decision to rule or schedule oral argument is pending as of the date these financial statements are issued. Discovery has commenced and written discovery requests have been exchanged between the parties. This case is currently set for trial on September 9, 2019. The Company and NG&E deny the allegations asserted and intend to vigorously defend this matter. Given the early stages of this matter, we cannot predict the outcome or consequences of this case at this time.

Regulatory Matters

On April 9, 2018 the Attorney General for the State of Illinois filed a complaint against Major Energy Electric Services, LLC (Major) asserting claims that Major engaged in a pattern and practice of deceptive conduct intended to defraud Illinois consumers through door-to-door and telephone solicitations, in-person solicitations at retail establishments, advertisements on its website and direct mail advertisements to sign up for electricity services. The complaint seeks injunctive relief and monetary damages representing the amounts Illinois consumers have allegedly lost due to fraudulent marketing activities. The Attorney General also requests civil penalties under the Consumer Fraud Act and to revoke Major's authority to operate in the state. The complaint was filed in the Circuit Court of Cook County, Illinois, County Department, Chancery Division. Major has not yet filed its initial responsive pleadings in this case. Major denies the allegations asserted and intends to vigorously defense this matter. Given the early stages of this matter, we cannot predict the outcome or consequences of this case at this time.

Spark Energy, LLC is the subject of two current investigations by the Connecticut Public Utilities Regulatory Authority ("PURA"). The first investigation constitutes a notice of violation and assessment of civil penalty in the amount of \$0.9 million primarily for Spark Energy, LLC's alleged failure to comply with regulations implemented in 2016 requiring that customer bills include any changes to existing rates effective for the next billing cycle. Spark Energy, LLC has requested a hearing in this matter which has been scheduled for May 11, 2018. The second investigation involves an inquiry into the marketing practices of one of Spark Energy, LLC's former outbound telemarketing vendors. Certain agents managed by this vendor were allegedly using an unauthorized script in outbound marketing calls. Spark Energy, LLC has already responded to several interrogatories regarding this matter and is awaiting further instruction from PURA. We are unable to predict the outcome of these proceedings. While investigations of this nature have become common and are often resolved in a manner that allows the retailer to continue operating in Connecticut, there can be no assurance that PURA will not take more severe action.

14. Transactions with Affiliates

The Company enters into transactions with and pays certain costs on behalf of affiliates that are commonly controlled in order to reduce risk, reduce administrative expense, create economies of scale, create strategic alliances and supply goods and services to these related parties. The Company also sells and purchases natural gas and electricity with

affiliates. The Company presents receivables and payables with the same affiliate on a net basis in the condensed consolidated balance sheets as all affiliate activity is with parties under common control.

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Acquisition of Perigee

The acquisition of Perigee by the Company from NG&E was a transfer of equity interests of entities under common control on April 1, 2017. Refer to Note 4 "Acquisitions" for further discussion.

Master Service Agreement with Retailco Services, LLC

We entered into a Master Service Agreement (the "Master Service Agreement") effective January 1, 2016 with Retailco Services, LLC ("Retailco Services"), which is wholly owned by our Founder. On March 7, 2018, we, Retailco Services and NuDevco Retail mutually agreed to terminate the MSA, effective April 1, 2018. The Master Service Agreement was for a one-year term and renewed automatically for successive one-year terms unless the Master Service Agreement was terminated by either party. Retailco Services provided us with operational support services such as: enrollment and renewal transaction services; customer billing and transaction services; electronic payment processing services; customer services and information technology infrastructure and application support services under the Master Service Agreement. Under the terms of the termination agreement, these operational support services were transferred back to the Company on April 1, 2018. See "Cost Allocations" for further discussion of the fees paid in connection with the Master Service Agreement during the three months ended March 31, 2018.

Acquisition of Customers from NG&E

On March 7, 2018, we entered into an asset purchase agreement with NG&E pursuant to which we will acquire approximately 50,000 RCEs from NG&E for a cash purchase price of \$250 for each RCE, or approximately \$12.5 million in the aggregate. These customers are expected to begin transferring after April 1, 2018 and are located in 24 markets in 8 states.

Accounts Receivable and Payable—Affiliates

The Company recorded current accounts receivable—affiliates of \$3.1 million and \$3.7 million as of March 31, 2018 and December 31, 2017, respectively, and current accounts payable—affiliates of \$4.0 million and \$4.6 million as of March 31, 2018 and December 31, 2017, respectively, for certain direct billings and cost allocations for services the Company provided to affiliates, services our affiliates provided to us, and sales or purchases of natural gas and electricity with affiliates.

Revenues and Cost of Revenues—Affiliates

Cost of revenues—affiliates, recorded in net asset optimization revenues in the condensed consolidated statements of operations for the three months ended March 31, 2018 and 2017 were less than \$0.1 million and zero, respectively. Revenues—affiliates, recorded in net asset optimization revenues in the condensed consolidated statements of operations for the three months ended March 31, 2018 and 2017 were \$0.6 million and zero, respectively.

Cost Allocations

The Company paid certain expenses on behalf of affiliates, which are reimbursed by the affiliates to the Company, and our affiliates paid certain expenses on our behalf, which are reimbursed by us. These transactions include costs that can be specifically identified and certain allocated overhead costs associated with general and administrative services, including executive management, due diligence work, recurring management consulting, facilities, banking arrangements, professional fees, insurance, information services, human resources and other support departments to the affiliates. Where costs incurred on behalf of the affiliate or us could not be determined by specific identification for direct billing, the costs were primarily allocated to the affiliated entities or us based on percentage of departmental usage, wages or headcount. The total net amount direct billed and allocated from

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affiliates was \$6.9 million and \$7.4 million, respectively, for the three months ended March 31, 2018 and 2017, respectively.

Of the \$6.9 million and \$7.4 million total net amounts directly billed and allocated from affiliates, the Company recorded general and administrative expense of \$5.3 million and \$7.3 million for the three months ended March 31, 2018 and 2017, respectively, in the condensed consolidated statement of operations in connection with fees paid under the Master Service Agreement with Retailco Services. Additionally under the Master Service Agreement, we capitalized \$0.5 million and \$0.1 million of property and equipment for the application, development and implementation of various systems during three months ended March 31, 2018 and 2017, respectively.

Distributions to and Contributions from Affiliates

During the three months ended March 31, 2018 and 2017, the Spark HoldCo made net capital distributions to NuDevco Retail and Retailco of \$3.9 million in conjunction with the payment of quarterly distributions attributable to its Spark HoldCo units. During the three months ended March 31, 2018 and 2017, Spark HoldCo made distributions to NuDevco Retail and Retailco for gross-up distributions of \$0.9 million and \$0.5 million, respectively, in connection with distributions made between Spark HoldCo and Spark Energy, Inc. for payment of income taxes incurred by Spark Energy, Inc.

Proceeds from Disgorgement of Stockholder Short-swing Profits

During the three months ended March 31, 2018, the Company received \$0.2 million cash for the disgorgement of stockholder short-swing profits under Section 16(b) under the Exchange Act accrued at December 31, 2017. The amount was recorded as an increase to additional paid-in capital in our consolidated balance sheet as of December 31, 2017.

Subordinated Debt Facility

On December 27, 2016, the Company and Spark HoldCo jointly issued to Retailco, an entity owned by our Founder, a 5% subordinated note in the principal amount of up to \$25.0 million. The subordinated note allows the Company and Spark HoldCo to draw advances in increments of no less than \$1.0 million per advance up to the maximum principal amount of the subordinated note. The subordinated note matures approximately three and a half years following the date of issuance, and advances thereunder accrue interest at 5% per annum from the date of the advance. The Company has the right to capitalize interest payments under the subordinated note. The subordinated note is subordinated in certain respects to the Company's Senior Credit Facility pursuant to a subordination agreement. The Company may pay interest and prepay principal on the subordinated note so long as it is in compliance with its covenants under the Senior Credit Facility, is not in default under the Senior Credit Facility and has minimum availability of \$5.0 million under its borrowing base under the Senior Credit Facility. Payment of principal and interest under the subordinated note is accelerated upon the occurrence of certain change of control or sale transactions. As of March 31, 2018 and December 31, 2017, there were no outstanding borrowings under the subordinated note.

Tax Receivable Agreement

Concurrently with the closing of the IPO, the Company entered into a Tax Receivable Agreement with Spark HoldCo, NuDevco Retail Holdings and NuDevco Retail. This agreement generally provides for the payment by the Company to Retailco, LLC (as the successor to NuDevco Retail Holdings) and NuDevco Retail of 85% of the net cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the Company actually realizes (or is deemed to realize in certain circumstances) in future periods as a result of (i) any tax basis increases resulting from the purchase

by the Company of Spark HoldCo units from NuDevco Retail Holdings, (ii) any tax basis increases resulting from the exchange of Spark HoldCo units for shares of Class A common stock pursuant to the Exchange Right (or resulting from an exchange of Spark HoldCo units for cash pursuant to the Cash Option) and (iii) any imputed interest deemed to be paid by the Company as a result of, and additional tax basis arising from,

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any payments the Company makes under the Tax Receivable Agreement. The Company retains the benefit of the remaining 15% of these tax savings. See Note 12 "Income Taxes" for further discussion.

In certain circumstances, the Company may defer or partially defer any payment due (a "TRA Payment") to the holders of rights under the Tax Receivable Agreement, which are currently Retailco and NuDevco Retail. During the five-year period ending September 30, 2019, the Company will defer all or a portion of any TRA Payment owed pursuant to the Tax Receivable Agreement to the extent that Spark HoldCo does not generate sufficient Cash Available for Distribution (as defined below) during the four-quarter period ending September 30th of the applicable year in which the TRA Payment is to be made in an amount that equals or exceeds 130% (the "TRA Coverage Ratio") of the Total Distributions (as defined below) paid in such four-quarter period by Spark HoldCo. For purposes of computing the TRA Coverage Ratio:

"Cash Available for Distribution" is generally defined as the Adjusted EBITDA of Spark HoldCo for the applicable period, less (i) cash interest paid by Spark HoldCo, (ii) capital expenditures of Spark HoldCo (exclusive of customer acquisition costs) and (iii) any taxes payable by Spark HoldCo; and

"Total Distributions" are defined as the aggregate distributions necessary to cause the Company to receive distributions of cash equal to (i) the targeted quarterly distribution the Company intends to pay to holders of its Class A common stock and Series A Preferred Stock payable during the applicable four-quarter period, plus (ii) the estimated taxes payable by the Company during such four-quarter period, plus (iii) the expected TRA Payment payable during the calendar year for which the TRA Coverage Ratio is being tested.

In the event that the TRA Coverage Ratio is not satisfied in any calendar year, the Company will defer all or a portion of the TRA Payment to NuDevco Retail or Retailco under the Tax Receivable Agreement to the extent necessary to permit Spark HoldCo to satisfy the TRA Coverage Ratio (and Spark HoldCo is not required to make and will not make the pro rata distributions to its members with respect to the deferred portion of the TRA Payment). If the TRA Coverage Ratio is satisfied in any calendar year, the Company will pay NuDevco Retail or Retailco the full amount of the TRA Payment.

Following the five-year deferral period ending September 30, 2019, the Company will be obligated to pay any outstanding deferred TRA Payments to the extent such deferred TRA Payments do not exceed (i) the lesser of the Company's proportionate share of aggregate Cash Available for Distribution of Spark HoldCo during the five-year deferral period or the cash distributions actually received by the Company during the five-year deferral period, reduced by (ii) the sum of (a) the aggregate target quarterly dividends (which, for the purposes of the Tax Receivable Agreement, will be \$0.18125 per Class A common stock share and \$0.546875 per Series A Preferred Stock share per quarter) during the five-year deferral period, (b) the Company's estimated taxes during the five-year deferral period, and (c) all prior TRA Payments and (d) if with respect to the quarterly period during which the deferred TRA Payment is otherwise paid or payable, Spark HoldCo has or reasonably determines it will have amounts necessary to cause the Company to receive distributions of cash equal to the target quarterly distribution payable during that quarterly period. Any portion of the deferred TRA Payments not payable due to these limitations will no longer be payable.

We met the threshold coverage ratio required to fund the TRA Payments to Retailco and NuDevco Retail under the Tax Receivable Agreement during the four-quarter periods ending September 30, 2016 and 2017. The TRA Payments for 2016 and 2017 are both due in 2018. We expect to meet the threshold coverage ratio required to fund the payment to Retailco and NuDevco Retail under the Tax Receivable Agreement during the four-quarter period ending September 30, 2018, with payment also due in 2018. The Company has classified \$5.9 million as a current liability in our consolidated balance sheet at March 31, 2018 and December 31, 2017.

15. Segment Reporting

The Company's determination of reportable business segments considers the strategic operating units under which the Company makes financial decisions, allocates resources and assesses performance of its retail and asset optimization businesses.

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The Company's reportable business segments are retail natural gas and retail electricity. The retail natural gas segment consists of natural gas sales to, and natural gas transportation and distribution for, residential and commercial customers. Asset optimization activities, considered an integral part of securing the lowest price natural gas to serve retail gas load, are part of the retail natural gas segment. The Company recorded asset optimization revenues of \$78.2 million and \$61.9 million and asset optimization cost of revenues of \$75.5 million and \$62.1 million for the three months ended March 31, 2018 and 2017, respectively, which are presented on a net basis in asset optimization revenues. The retail electricity segment consists of electricity sales and transmission to residential and commercial customers. Corporate and other consists of expenses and assets of the retail natural gas and retail electricity segments that are managed at a consolidated level such as general and administrative expenses.

The acquisitions of Perigee and the Verde Companies in 2017 and the acquisition of HIKO in 2018 had no impact on our reportable business segments as the portions of those acquisitions related to retail natural gas and retail electricity have been included in those existing business segments.

To assess the performance of the Company's operating segments, the Chief Operating Decision Maker analyzes retail gross margin. The Company defines retail gross margin as operating income (loss) plus (i) depreciation and amortization expenses and (ii) general and administrative expenses, less (i) net asset optimization revenues (expenses), (ii) net gains (losses) on non-trading derivative instruments, and (iii) net current period cash settlements on non-trading derivative instruments. The Company deducts net gains (losses) on non-trading derivative instruments, excluding current period cash settlements, from the retail gross margin calculation in order to remove the non-cash impact of net gains and losses on non-trading derivative instruments.

Retail gross margin is a primary performance measure used by our management to determine the performance of our retail natural gas and electricity business by removing the impacts of our asset optimization activities and net non-cash income (loss) impact of our economic hedging activities. As an indicator of our retail energy business' operating performance, retail gross margin should not be considered an alternative to, or more meaningful than, operating income, as determined in accordance with GAAP.

Below is a reconciliation of retail gross margin to income before income tax expense (in thousands):

	Three Months Ended March 31, 2018 2017 ⁽¹⁾	
Reconciliation of Retail Gross Margin to (Loss) income before taxes		
(Loss) income before income tax expense	\$(48,298)	\$13,537
Interest and other income	(201)	(199)
Interest expense	2,245	3,445
Operating (loss) income	(46,254)	16,783
Depreciation and amortization	13,019	9,270
General and administrative	30,047	24,493
Less:		
Net asset optimization revenues / (expenses)	2,687	(193)
Net, loss on non-trading derivative instruments	(36,712)	(21,376)
Net, Cash settlements on non-trading derivative instruments	(14,882)	7,515
Retail Gross Margin	\$45,719	\$64,600

(1) Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

The Company uses retail gross margin and net asset optimization revenues as the measure of profit or loss for its business segments. This measure represents the lowest level of information that is provided to the chief operating decision maker for our reportable segments.

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Financial data for business segments are as follows (in thousands):

Three Months Ended March 31, 2018	Retail Electricity	Retail Natural Gas	Corporate and Other	Eliminations	Spark Retail
Total Revenues	\$220,899	\$65,789	\$—	\$—	\$286,688
Retail cost of revenues	249,547	40,329	—	—	289,876
Less:					
Net asset optimization revenue	—	2,687	—	—	2,687
Losses on non-trading derivatives	(33,319)	(3,393)	—	—	(36,712)
Current period settlements on non-trading derivatives	(15,048)	166	—	—	(14,882)
Retail Gross Margin	\$19,719	\$26,000	\$—	\$—	\$45,719
Total Assets at March 31, 2018	\$1,424,086	\$494,203	\$238,395	\$(1,662,779)	\$493,905
Goodwill at March 31, 2018	\$117,624	\$2,530	\$—	\$—	\$120,154
Three Months Ended March 31, 2017 ⁽¹⁾	Retail Electricity	Retail Natural Gas	Corporate and Other	Eliminations	Spark Retail
Total revenues	\$133,694	\$62,613	\$—	\$—	\$196,307
Retail cost of revenues	108,844	36,917	—	—	145,761
Less:					
Net asset optimization expense	—	(193)	—	—	(193)
Losses on non-trading derivatives	(19,627)	(1,749)	—	—	(21,376)
Current period settlements on non-trading derivatives	7,706	(191)	—	—	7,515
Retail Gross Margin	\$36,771	\$27,829	\$—	\$—	\$64,600
Total Assets at December 31, 2017	\$1,228,552	\$421,896	\$209,428	\$(1,353,927)	\$505,949
Goodwill at December 31, 2017	\$117,624	\$2,530	\$—	\$—	\$120,154

(1) Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

16. Subsequent Events

Declaration of Dividends

On April 19, 2018, the Company declared a quarterly dividend of \$0.18125 to holders of record of our Class A common stock on May 31, 2018 and payable on June 14, 2018.

On April 19, 2018, the Company declared a quarterly cash dividend in the amount of \$0.546875 per share of Series A Preferred Stock. This amount represents an annualized dividend of \$2.1875 per share. The dividend will be paid on July 16, 2018 to holders of record on July 2, 2018 of the Series A Preferred Stock. The Company anticipates Series A Preferred Stock dividends declared of \$8.1 million in the aggregate for the year ended December 31, 2018 based on the Series A Preferred Stock outstanding as of March 31, 2018.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this report and the audited combined and consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations included in our Form 10-K for the year ended December 31, 2017 that was filed with the Securities and Exchange Commission ("SEC"). In this report, the terms "Spark Energy," "Company," "we," "us" and "our" refer collectively to Spark Energy, Inc. and its subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. These forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), can be identified by the use of forward-looking terminology including "may," "should," "likely," "will," "believe," "expect," "anticipate," "estimate," "continue," "plan," "intend," "projects," or other similar words. All statements, other than statements of historical fact included in this report, regarding strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans, objectives and beliefs of management are forward-looking statements. Forward-looking statements appear in a number of places in this report and may include statements about business strategy and prospects for growth, customer acquisition costs, ability to pay cash dividends, cash flow generation and liquidity, availability of terms of capital, competition and government regulation and general economic conditions. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot give any assurance that such expectations will prove correct.

The forward-looking statements in this report are subject to risks and uncertainties. Important factors that could cause actual results to materially differ from those projected in the forward-looking statements include, but are not limited to:

- changes in commodity prices and the sufficiency of risk management and hedging policies;
- extreme and unpredictable weather conditions, and the impact of hurricanes and other natural disasters;
- federal, state and local regulation, including the industry's ability to address or adapt to potentially restrictive new regulations that may be enacted by the New York Public Service Commission;
- our ability to borrow funds and access credit markets and restrictions in our debt agreements and collateral requirements;
- credit risk with respect to suppliers and customers;
- changes in costs to acquire customers and actual attrition rates;
- accuracy of billing systems;
- whether our majority stockholder or its affiliates offer us acquisition opportunities on terms that are commercially acceptable to us;
- ability to successfully identify, complete, and efficiently integrate acquisitions into our operations;
- competition, and
- the "Risk Factors" in our Annual Report Form 10-K for the year ended December 31, 2017, in this Quarterly Report on Form 10-Q, and other public filings and press releases.

You should review the risk factors and other factors noted throughout or incorporated by reference in this report that could cause our actual results to differ materially from those contained in any forward-looking statement. All forward-looking statements speak only as of the date of this report. Unless required by law, we disclaim any obligation to publicly update or revise these statements whether as a result of new information, future events or otherwise. It is not possible for us to predict all risks, nor can we assess the impact of all factors on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Overview

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Spark Energy, Inc. is a growing independent retail energy services company founded in 1999 that provides residential and commercial customers in competitive markets across the United States with an alternative choice for their natural gas and electricity. We purchase our natural gas and electricity supply from a variety of wholesale providers and bill our customers monthly for the delivery of natural gas and electricity based on their consumption at either a fixed or variable price. Natural gas and electricity are then distributed to our customers by local regulated utility companies through their existing infrastructure. As of March 31, 2018, we operated in 94 utility service territories across 19 states and the District of Columbia.

Our business consists of two operating segments:

Retail Electricity Segment. We purchase electricity supply through physical and financial transactions with market counterparts and ISOs and supply electricity to residential and commercial consumers pursuant to fixed-price and variable-price contracts. For the three months ended March 31, 2018 and 2017, approximately 78% and 68%, respectively, of our retail revenues were derived from the sale of electricity.

Retail Natural Gas Segment. We purchase natural gas supply through physical and financial transactions with market counterparts and supply natural gas to residential and commercial consumers pursuant to fixed-price and variable-price contracts. For the three months ended March 31, 2018 and 2017, approximately 22% and 32%, respectively, of our retail revenues were derived from the sale of natural gas. We also identify wholesale natural gas arbitrage opportunities in conjunction with our retail procurement and hedging activities, which we refer to as asset optimization.

Recent Developments

Declaration of Dividends

On April 19, 2018, we declared a quarterly dividend of \$0.18125 to holders of record of our Class A common stock on May 31, 2018 and payable on June 14, 2018.

On April 19, 2018, we declared a dividend of \$0.546875 to holders of record of our Series A Preferred Stock on July 2, 2018 and payable on July 16, 2018.

Acquisition of HIKO

On March 1, 2018, we entered into a Membership Interest Purchase Agreement pursuant to which we acquired all of the issued and outstanding membership interests of HIKO Energy, LLC, a New York limited liability company, for a total purchase price of \$6.0 million in cash, plus working capital. HIKO Energy, LLC has a total of approximately 29,000 RCEs located in 42 markets in 7 states.

Acquisition of Customers from NG&E

On March 7, 2018, we entered into an asset purchase agreement with NG&E pursuant to which we will acquire approximately 50,000 RCEs from NG&E for a cash purchase price of \$250 for each RCE, or approximately \$12.5 million in the aggregate. These customers are expected to begin transferring after April 1, 2018 and are located in 24 markets in 8 states.

Termination of Master Service Agreement

On March 7, 2018, we, Retailco Services and NuDevco Retail mutually agreed to terminate the Master Services Agreement, effective April 1, 2018. We believe that Retailco Services was able to recognize cost savings and stabilize operating costs related to the operational support services in 2016 and 2017. Under the terms of the termination agreement, operational support services will be transferred back to the Company, which may allow us

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to extract further savings by eliminating overhead attributable to managing and accounting for Retailco Services as a stand-alone business.

Series A Preferred Stock Offering

On January 26, 2018, we issued 2,000,000 shares of Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock ("Series A Preferred Stock") and received net proceeds from the offering of approximately \$48.9 million (net of underwriting discounts, commissions and a structuring fee).

Termination of Verde Earnout

On January 12, 2018, we entered into an Agreement to Terminate Earnout Payments (the "Earnout Termination Agreement") that terminated our obligation to make any required earnout payments under the agreement for our acquisition of the Verde Companies. Under the Earnout Termination Agreement, we issued a new promissory note to the prior owner of the Verde Companies in the amount of \$5.9 million and amended the promissory note entered into at the closing of our acquisition of the Verde Companies to increase the interest rate. Please see "—Liquidity and Capital Resources— Uses of Liquidity and Capital Resources—Verde Earnout Termination Note."

Expansion of Credit Facility

On January 11, 2018 and January 23, 2018, we exercised the accordion feature in the Senior Credit Facility, which when combined with prior exercises in 2017, increased the total commitments under the Senior Credit Facility from \$150.0 million to \$200.0 million. Please see "—Liquidity and Capital Resources—Sources of Liquidity and Capital Resources—Senior Credit Facility."

Residential Customer Equivalents

The following table shows activity of our residential customer equivalents ("RCEs") during the three months ended March 31, 2018:

RCEs:

(In thousands)	December 31, 2017	Additions	Attrition	March 31, 2018	% Increase (Decrease)
Retail Electricity	868	132	(110)	890	3%
Retail Natural Gas	174	14	(23)	165	(5)%
Total Retail	1,042	146	(133)	1,055	1%

The following table details our count of RCEs by geographical location as of March 31, 2018:

RCEs by Geographic Location:

(In thousands)	Electricity	% of Total	Natural Gas	% of Total	Total	% of Total
New England	421	47%	31	19%	452	43%
Mid-Atlantic	301	34%	68	41%	369	35%
Midwest	67	8%	44	27%	111	11%
Southwest	101	11%	22	13%	123	11%
Total	890	100%	165	100%	1,055	100%

The geographical regions noted above include the following states:

• New England - Connecticut, Maine, Massachusetts, New Hampshire;

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Mid-Atlantic - Delaware, Maryland (including the District of Columbia), New Jersey, New York and Pennsylvania;
Midwest - Illinois, Indiana, Michigan and Ohio; and
Southwest - Arizona, California, Colorado, Florida, Nevada and Texas.

Drivers of our Business

Customer Growth

Customer growth is a key driver of our operations. Our customer growth strategy includes acquiring customers through acquisitions as well as organically.

Organic Growth

Our organic sales strategies are used to both maintain and grow our customer base by offering competitive pricing, price certainty, and/or green product offerings. We manage growth on a market-by-market basis by developing price curves in each of the markets we serve and comparing the market prices to the price the local regulated utility is offering. We then determine if there is an opportunity in a particular market based on our ability to create a competitive product on economic terms that satisfies our profitability objectives and provides customer value. We develop marketing campaigns using a combination of sales channels, with an emphasis on door-to-door marketing and outbound telemarketing given their flexibility and historical effectiveness. We identify and acquire customers through a variety of additional sales channels, including our inbound customer care call center, online marketing, email, direct mail, affinity programs, direct sales, brokers and consultants. Our marketing team continuously evaluates the effectiveness of each customer acquisition channel and makes adjustments in order to achieve desired growth and profitability targets.

In 2017, we emphasized growing our commercial and industrial ("C&I") volume. After significant growth in our C&I volume in 2017, management is refocusing on higher margin residential and small commercial customers in the first part of 2018.

We believe we can continue to grow organically, however, achieving significant organic growth rates has become increasingly more difficult given our size, much of which is attributable to acquisitions. Additionally, increasing regulatory pressure on marketing channels such as door-to-door and outbound telemarketing and the ability to manage customer acquisition costs are significant factors in our ability to grow organically.

Acquisitions

We independently acquire companies and portfolios of companies through some combination of cash, borrowings under the Senior Credit Facility, the issuance of common or preferred stock or other financing arrangements with our Founder and his affiliates. Additionally, our Founder formed National Gas & Electric, LLC, an affiliate of the Company ("NG&E"), in 2015 for the purpose of purchasing retail energy companies and retail customer books that could ultimately be resold to us. We currently expect that we would fund any future transaction with NG&E using some combination of cash, subordinated debt, or the issuance of Class A common stock or Class B common stock (and corresponding Spark HoldCo units) to NG&E. However, actual consideration will depend, among other things, on our capital structure and liquidity at the time of any transaction. There is no guarantee that NG&E will continue to offer us acquisition opportunities. Additionally, as we grow and our access to capital and opportunities improves, we may rely less upon NG&E as a source of acquisitions and seek to enter into more transactions directly with third parties.

We are actively monitoring acquisition opportunities that may arise in the domestic acquisition market as smaller retailers face difficulties in managing risk and liquidity issues caused by the recent extreme weather patterns. Our ability to grow at historic levels may be constrained if the market for acquisition candidates is limited or we are unable to make acquisitions of portfolios of customers and retail energy companies on commercially reasonable terms.

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Integration of Acquisitions

Effective integration of our acquisitions is a key driver of our business. We integrated both CenStar and Oasis and began recognizing synergies in 2015. We were able to integrate the Provider Companies and begin recognizing synergies in 2016. The integration of the Perigee acquisition is progressing well and synergies are being recognized as of March 31, 2018. As the Major Energy Companies Earnout extends over multiple years, the Company is not able to achieve full synergies at this time. We were able to terminate the earnout related to our acquisition of the Verde Companies, allowing us to begin integrating the Verde Companies in early 2018.

Customer Acquisition Costs Incurred

Management of customer acquisition costs is a key component to our profitability. Customer acquisition costs are related to organic customer acquisitions and do not include customers acquired through mergers and acquisitions, which are recorded as customer relationships.

We attempt to maintain a disciplined approach to recovery of our customer acquisition costs within defined periods. We capitalize and amortize our customer acquisition costs over a two year period, which is based on the expected average length of a customer relationship. We factor in the recovery of customer acquisition costs in determining which markets we enter and the pricing of our products in those markets. Accordingly, our results are significantly influenced by our customer acquisition spending.

Customer acquisition costs incurred for the three months ended March 31, 2018 and 2017 was approximately \$4.3 million and \$7.7 million, respectively. Our customer acquisition costs were lower than the previous year because we were more focused on acquisitions of businesses and customer portfolio additions during the first quarter of 2018.

Our Ability to Manage Customer Attrition

Customer attrition is primarily due to: (i) customer initiated switches; (ii) residential moves and (iii) disconnection for customer payment defaults.

Customer attrition for the three months ended March 31, 2018 and 2017 was 4.2% and 3.8%, respectively. Our customer attrition was slightly higher than the prior year because of a change in the portfolio mix from acquisition activity.

Customer Credit Risk

Our bad debt expense for the three months ended March 31, 2018 was 2.6% of non-POR market retail revenues. As our geographic and acquisition channel mix changes, our bad debt expense increased. In order to manage this, we are placing an increased focus on collection efforts and timely billing along with tighter credit requirements for new enrollments in non-POR markets during three months ended March 31, 2018.

Weather Conditions

Weather conditions directly influence the demand for natural gas and electricity and affect the prices of energy commodities. Our hedging strategy is based on forecasted customer energy usage, which can vary substantially as a result of weather patterns deviating from historical norms.

Our risk management policies direct that we hedge substantially all of our forecasted load, which is typically hedged to long-term normal weather patterns. During the three months ended March 31, 2018, the New England, Mid-Atlantic and Midwest regions experienced extreme unpredicted weather patterns, resulting in excessive customer usage which negatively impacted our results of operations. During this period, the markets we served experienced much higher than normal demand for electricity and natural gas, as well as prolonged periods of well-

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above normal prices for commodities in the day-ahead and real-time markets. This negatively impacted the gross margin for the additional commodity that we supplied to our customers above the normal-weather load we had hedged.

Asset Optimization

Our natural gas business includes opportunistic transactions in the natural gas wholesale marketplace in conjunction with our retail procurement and hedging activities. Asset optimization opportunities primarily arise during the winter heating season when demand for natural gas is the highest. As such, the majority of our asset optimization profits are made in the winter. Given the opportunistic nature of these activities, we experience variability in our earnings from our asset optimization activities from year to year. As these activities are accounted for using mark to-market accounting, the timing of our revenue recognition often differs from the actual cash settlement. As a result of the weather conditions during the first few weeks of 2018, we were unable to optimize our position as effectively as we had in the first quarter of 2017.

Net asset optimization results were a gain of \$2.7 million for the three months ended March 31, 2018, primarily due to arbitrage opportunities we captured, offset by \$0.4 million of our annual legacy demand charges allocated to the quarter. During the full year 2018, we are obligated to pay demand charges of approximately \$1.0 million under certain long-term legacy transportation assets that our predecessor entity acquired prior to 2013.

Factors Affecting Comparability of Historical Financial Results

Tax Receivable Agreement. We entered into the Tax Receivable Agreement between us and Spark Holdco, NuDevco Retail Holdings and NuDevco Retail concurrently with the IPO, which provides for the payment by us to Retailco, LLC (as successor to NuDevco Retail Holdings) and NuDevco Retail of 85% of the net cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize (or are deemed to realize in certain circumstances) in future periods as a result of certain events. On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("U.S. Tax Reform"), which enacts a wide range of changes to the U.S. Corporate income tax system, including a reduction in the U.S. corporate tax rate to 21% effective in 2018. The revised corporate income tax rate reduces the amount of net cash savings to be realized in future periods. Therefore, we have reduced the Tax Receivable Agreement liability ("TRA liability") as of December 31, 2017 by \$22.3 million to reflect the effect of the U.S. Tax Reform and recorded this adjustment through Other Income. In addition, payments we make under the Tax Receivable Agreement are increased by any interest accrued from the due date (without extensions) of the corresponding tax return. We have recorded 85% of the estimated tax benefit as an increase to amounts payable under the Tax Receivable Agreement as a liability. We retain the benefit of the remaining 15% of these tax savings. As a result of new federal tax laws going into effect in 2018, the Company has re-valued its deferred tax asset and deferred tax liability relating to the Tax Receivable Agreement on its balance sheet as of December 31, 2017. The effect of these downward adjustments is a net increase in income tax expense for the year ended December 31, 2017. See Note 12 "Income Taxes" for further discussion.

Executive Compensation Programs. Periodically the Company grants restricted stock units to our officers, employees, non-employee directors and certain employees of our affiliates who perform services for the Company. The restricted stock unit awards vest over approximately one year for non-employee directors and ratably over approximately three or four years for officers, employees and employees of affiliates, with the initial vesting date occurring in May of the subsequent year, and include tandem dividend equivalent rights that will vest upon the same schedule as the underlying restricted stock unit.

Financing. We are party to the Senior Credit Facility. Historical borrowings under the Senior Credit Facility may not provide an accurate indication of what we need to operate our natural gas and electricity business. For a description of

our current Senior Credit Facility, please see "—Liquidity and Capital Resources—Sources of Liquidity and Capital Resources—Senior Credit Facility."

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How We Evaluate Our Operations

	Three Months	
	Ended March	
	31,	
(in thousands)	2018	2017 ⁽¹⁾
Adjusted EBITDA	\$ 15,902	\$ 34,370
Retail Gross Margin	\$ 45,719	\$ 64,600

(1) Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

Adjusted EBITDA. We define "Adjusted EBITDA" as EBITDA less (i) customer acquisition costs incurred in the current period, (ii) net gain (loss) on derivative instruments, and (iii) net current period cash settlements on derivative instruments, plus (iv) non-cash compensation expense, and (v) other non-cash and non-recurring operating items. EBITDA is defined as net income (loss) before provision for income taxes, interest expense and depreciation and amortization.

We deduct all current period customer acquisition costs (representing spending for organic customer acquisitions) in the Adjusted EBITDA calculation because such costs reflect a cash outlay in the period in which they are incurred, even though we capitalize such costs and amortize them over two years in accordance with our accounting policies. The deduction of current period customer acquisition costs is consistent with how we manage our business, but the comparability of Adjusted EBITDA between periods may be affected by varying levels of customer acquisition costs. For example, our Adjusted EBITDA is lower in periods of organic customer growth reflecting larger customer acquisition spending.

We do not deduct the cost of customer acquisitions through acquisitions of businesses or portfolios of customers in calculating Adjusted EBITDA.

We deduct our net gains (losses) on derivative instruments, excluding current period cash settlements, from the Adjusted EBITDA calculation in order to remove the non-cash impact of net gains and losses on derivative instruments. We also deduct non-cash compensation expense as a result of restricted stock units that are issued under our long-term incentive plan.

We believe that the presentation of Adjusted EBITDA provides information useful to investors in assessing our liquidity and financial condition and results of operations and that Adjusted EBITDA is also useful to investors as a financial indicator of our ability to incur and service debt, pay dividends and fund capital expenditures. Adjusted EBITDA is a supplemental financial measure that management and external users of our condensed consolidated financial statements, such as industry analysts, investors, commercial banks and rating agencies, use to assess the following:

- our operating performance as compared to other publicly traded companies in the retail energy industry, without regard to financing methods, capital structure or historical cost basis;
- the ability of our assets to generate earnings sufficient to support our proposed cash dividends; and
- our ability to fund capital expenditures (including customer acquisition costs) and incur and service debt.

Retail Gross Margin. We define retail gross margin as operating income (loss) plus (i) depreciation and amortization expenses and (ii) general and administrative expenses, less (iii) net asset optimization revenues, (iv) net gains (losses) on non-trading derivative instruments, and (v) net current period cash settlements on non-trading derivative instruments. Retail gross margin is included as a supplemental disclosure because it is a primary performance measure

used by our management to determine the performance of our retail natural gas and electricity business by removing the impacts of our asset optimization activities and net non-cash income (loss) impact of our economic hedging activities. As an indicator of our retail energy business' operating performance, retail gross margin should not be considered an alternative to, or more meaningful than, operating income (loss), its most directly comparable financial measure calculated and presented in accordance with GAAP.

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We believe retail gross margin provides information useful to investors as an indicator of our retail energy business's operating performance.

The GAAP measures most directly comparable to Adjusted EBITDA are net income (loss) and net cash provided by operating activities. The GAAP measure most directly comparable to Retail Gross Margin is operating income (loss). Our non-GAAP financial measures of Adjusted EBITDA and Retail Gross Margin should not be considered as alternatives to net income (loss), net cash provided by operating activities, or operating income (loss). Adjusted EBITDA and Retail Gross Margin are not presentations made in accordance with GAAP and have important limitations as analytical tools. You should not consider Adjusted EBITDA or Retail Gross Margin in isolation or as a substitute for analysis of our results as reported under GAAP. Because Adjusted EBITDA and Retail Gross Margin exclude some, but not all, items that affect net income (loss), net cash provided by operating activities, and operating income (loss), and are defined differently by different companies in our industry, our definition of Adjusted EBITDA and Retail Gross Margin may not be comparable to similarly titled measures of other companies. Management compensates for the limitations of Adjusted EBITDA and Retail Gross Margin as analytical tools by reviewing the comparable GAAP measures, understanding the differences between the measures and incorporating these data points into management's decision-making process.

The following table presents a reconciliation of Adjusted EBITDA to net (loss) income for each of the periods indicated.

(in thousands)	Three Months Ended March 31,	
	2018	2017 ⁽¹⁾
Reconciliation of Adjusted EBITDA to Net Income:		
Net (loss) income	\$(41,831)	\$11,132
Depreciation and amortization	13,019	9,270
Interest expense	2,245	3,445
Income tax (benefit) expense	(6,467)	2,405
EBITDA	(33,034)	26,252
Less:		
Net, losses on derivative instruments	(36,542)	(21,796)
Net, Cash settlements on derivative instruments	(15,537)	7,355
Customer acquisition costs	4,274	7,690
Plus:		
Non-cash compensation expense	1,131	1,367
Adjusted EBITDA	\$15,902	\$34,370

(1) Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

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The following table presents a reconciliation of Adjusted EBITDA to net cash provided by (used in) operating activities for each of the periods indicated.

	Three Months Ended March 31,	
(in thousands)	2018	2017 ⁽¹⁾
Reconciliation of Adjusted EBITDA to net cash provided by operating activities:		
Net cash (used in) provided by operating activities	\$(9,540)	\$23,294
Amortization of deferred financing costs	(295)	(248)
Allowance for doubtful accounts and bad debt expense	(2,423)	(356)
Interest expense	2,245	3,445
Income tax (benefit) expense	(6,467)	2,405
Changes in operating working capital		
Accounts receivable, prepaids, current assets	12,628	(2,381)
Inventory	(4,070)	(3,322)
Accounts payable and accrued liabilities	16,316	13,076
Other	7,508	(1,543)
Adjusted EBITDA	\$15,902	\$34,370
Cash Flow Data:		
Cash flows (used in) provided by operating activities	\$(9,540)	\$23,294
Cash flows used in investing activities	(15,795)	(112)
Cash flows provided by (used in) financing activities	16,981	(17,193)

(1) Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

The following table presents a reconciliation of Retail Gross Margin to operating income (loss) for each of the periods indicated.

	Three Months Ended March 31,	
(in thousands)	2018	2017 ⁽¹⁾
Reconciliation of Retail Gross Margin to Operating Income:		
Operating (loss) income	\$(46,254)	\$16,783
Depreciation and amortization	13,019	9,270
General and administrative	30,047	24,493
Less:		
Net asset optimization revenues (expenses)	2,687	(193)
Net, Losses on non-trading derivative instruments	(36,712)	(21,376)
Net, Cash settlements on non-trading derivative instruments	(14,882)	7,515
Retail Gross Margin	\$45,719	\$64,600
Retail Gross Margin - Retail Electricity Segment	\$19,719	\$36,771
Retail Gross Margin - Retail Natural Gas Segment	\$26,000	\$27,829

(1) Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

Consolidated Results of Operations

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

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(In Thousands)	Three Months Ended		
	March 31, 2018	2017 ⁽¹⁾	Change
Revenues:			
Retail revenues	\$284,001	\$196,500	\$87,501
Net asset optimization revenues (expenses)	2,687	(193)	2,880
Total Revenues	286,688	196,307	90,381
Operating Expenses:			
Retail cost of revenues	289,876	145,761	144,115
General and administrative	30,047	24,493	5,554
Depreciation and amortization	13,019	9,270	3,749
Total Operating Expenses	332,942	179,524	153,418
Operating (loss) income	(46,254)	16,783	(63,037)
Other expense/(income):			
Interest expense	(2,245)	(3,445)	1,200
Interest and other income	201	199	2
Total other expenses	(2,044)	(3,246)	1,202
(Loss) income before income tax (benefit) expense	(48,298)	13,537	(61,835)
Income tax (benefit) expense	(6,467)	2,405	(8,872)
Net (loss) income	\$(41,831)	\$11,132	\$(52,963)
Adjusted EBITDA ⁽²⁾	\$15,902	\$34,370	\$(18,468)
Retail Gross Margin ⁽²⁾	45,719	64,600	(18,881)
Customer Acquisition Costs	4,274	7,690	(3,416)
RCE Attrition	4.2	% 3.8	% 0.4 %

Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by (1) an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

Adjusted EBITDA and Retail Gross Margin are non-GAAP financial measures. See "—How We Evaluate Our (2) Operations" for a reconciliation of Adjusted EBITDA and Retail Gross Margin to their most directly comparable financial measures presented in accordance with GAAP.

Total Revenues. Total revenues for the three months ended March 31, 2018 were approximately \$286.7 million, an increase of approximately \$90.4 million, or 46%, from approximately \$196.3 million for the three months ended March 31, 2017, as indicated in the table below (in millions). This increase was primarily due to an increase in electricity volumes from both the Verde Companies and the extreme unpredicted weather conditions in 2018.

Change in electricity volumes sold	\$83.7
Change in natural gas volumes sold	(4.1)
Change in electricity unit revenue per MWh	3.5
Change in natural gas unit revenue per MMBtu	4.4
Change in net asset optimization revenue	2.9
Change in total revenues	\$90.4

Retail Cost of Revenues. Total retail cost of revenues for the three months ended March 31, 2018 was approximately \$289.9 million, an increase of approximately \$144.1 million, or 99%, from approximately \$145.8 million for the three months ended March 31, 2017, as indicated in the table below (in millions). This increase was primarily due to an increase in electricity volumes driven by the acquisition of the Verde Companies and increased electricity volumes and unit cost due to extreme unpredicted weather conditions in 2018.

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Change in electricity volumes sold	\$60.7
Change in natural gas volumes sold	(2.3)
Change in electricity unit cost per MWh	43.6
Change in natural gas unit cost per MMBtu	4.4
Change in value of retail derivative portfolio	37.7
Change in retail cost of revenues	\$144.1

General and Administrative Expense. General and administrative expense for the three months ended March 31, 2018 was approximately \$30.0 million, an increase of approximately \$5.5 million, or 22%, as compared to \$24.5 million for the three months ended March 31, 2017. This increase was primarily attributable to variable costs associated with increased RCEs as a result of the acquisition of the Verde Companies, as well as costs related to the acquisition of customers by the Verde Companies that we cannot capitalize, offset by net decrease in fair value of earnout liabilities, which decreased general and administrative expenses.

Depreciation and Amortization Expense. Depreciation and amortization expense for the three months ended March 31, 2018 was approximately \$13.0 million, an increase of approximately \$3.7 million, or 40%, from approximately \$9.3 million for the three months ended March 31, 2017. This increase was primarily due to the increased amortization expense associated with customer intangibles from the acquisition of the Verde Companies.

Customer Acquisition Cost. Customer acquisition cost for the three months ended March 31, 2018 was approximately \$4.3 million, a decrease of approximately 3.4 million, or 44%, from approximately \$7.7 million for the three months ended March 31, 2017. This decrease was primarily due to a decrease in the gross amount we spent on organic sales during the quarter.

Operating Segment Results

	Three Months Ended March 31, 2018 2017 ⁽¹⁾ (in thousands, except volume and per unit operating data)	
Retail Electricity Segment		
Total Revenues	\$ 220,899	\$ 133,694
Retail Cost of Revenues	249,547	108,844
Less: Net Losses on non-trading derivatives, net of cash settlements	(48,367)	(11,921)
Retail Gross Margin ⁽²⁾ — Electricity	\$ 19,719	\$ 36,771
Volumes — Electricity (MWhs)	2,252,024	1,385,114
Retail Gross Margin ⁽³⁾ — Electricity per MWh	\$ 8.76	\$ 26.55
Retail Natural Gas Segment		
Total Revenues	65,789	62,613
Retail Cost of Revenues	40,329	36,917
Less: Net Asset Optimization Revenues (Expenses)	2,687	(193)
Less: Net Losses on non-trading derivatives, net of cash settlements	(3,227)	(1,940)
Retail Gross Margin ⁽²⁾ — Gas	\$ 26,000	\$ 27,829
Volumes — Gas (MMBtus)	7,677,082	8,219,279
Retail Gross Margin ⁽³⁾ — Gas per MMBtu	\$ 3.39	\$ 3.39

Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by (1) an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

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- Reflects the Retail Gross Margin attributable to our Retail Natural Gas Segment or Retail Electricity Segment, as applicable. Retail Gross Margin is a non-GAAP financial measure. See “How We Evaluate Our Operations” for a reconciliation of Adjusted EBITDA and Retail Gross Margin to their most directly comparable financial measures presented in accordance with GAAP.
- (2) Reflects the Retail Gross Margin for the Retail Natural Gas Segment or Retail Electricity Segment, as applicable, divided by the total volumes in MMBtu or MWh, respectively.

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Retail Electricity Segment

Total revenues for the Retail Electricity Segment for the three months ended March 31, 2018 were approximately \$220.9 million, an increase of approximately \$87.2 million, or 65%, from approximately \$133.7 million for the three months ended March 31, 2017. This increase was largely because of an increase in volumes, primarily due to our acquisition of the Verde Companies and extreme unpredicted weather conditions in 2018, resulting in an increase of \$83.7 million. This increase was further impacted by higher electricity pricing environment from harsher than anticipated weather, which resulted in an increase of \$3.5 million.

Retail cost of revenues for the Retail Electricity Segment for the three months ended March 31, 2018 were approximately \$249.6 million, an increase of approximately \$140.7 million, or 129%, from approximately \$108.9 million for the three months ended March 31, 2017. This increase was primarily due to an increase in volumes as a result of the acquisition of the Verde Companies and extreme unpredicted weather conditions in 2018, resulting in an increase of \$60.7 million, and an increase in supply cost of \$43.6 million. We also recognized a change in the value of our retail derivative portfolio used for hedging, which resulted in an increase of \$36.4 million.

Retail gross margin for the Retail Electricity Segment for the three months ended March 31, 2018 was approximately \$19.7 million, a decrease of approximately \$17.1 million, or 46%, from approximately \$36.8 million for the three months ended March 31, 2017, as indicated in the table below (in millions).

Change in volumes sold	\$23.0
Change in unit margin per MWh	(40.1)
Change in retail electricity segment retail gross margin	\$(17.1)

Retail Natural Gas Segment

Total revenues for the Retail Natural Gas Segment for the three months ended March 31, 2018 were approximately \$65.8 million, an increase of approximately \$3.2 million, or 5%, from approximately \$62.6 million for the three months ended March 31, 2017. This increase was primarily attributable to an increase of \$2.9 million in net asset optimization revenues and higher rates driven by the higher natural gas pricing environment, which resulted in an increase in total revenues of \$4.4 million, offset by decrease in sales volumes, which decreased total revenues by \$4.1 million.

Retail cost of revenues for the Retail Natural Gas Segment for the three months ended March 31, 2018 were approximately \$40.3 million, an increase of \$3.4 million, or 9%, from approximately \$36.9 million for the three months ended March 31, 2017. This increase was primarily due to increased supply cost of \$4.4 million and a change in the value of our retail derivative portfolio used for hedging, which resulted in a increase of \$1.3 million. This was offset by a decrease in volume, which resulted in a decrease of \$2.3 million.

Retail gross margin for the Retail Natural Gas Segment for the three months ended March 31, 2018 was approximately \$26.0 million, a decrease of approximately \$1.8 million, or 7%, from approximately \$27.8 million for the three months ended March 31, 2017, as indicated in the table below (in millions).

Change in volumes sold	\$(1.8)
Change in unit margin per MMBtu	—
Change in retail natural gas segment retail gross margin	\$(1.8)

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Liquidity and Capital Resources

Overview

Our principal liquidity requirements are to meet our financial commitments, finance current operations, fund organic growth and acquisitions, service debt and pay dividends. Our liquidity requirements fluctuate with our customer acquisition costs, acquisitions, collateral posting requirements on our derivative instruments portfolio, distributions, the effects of the timing between payments of payables and receipts of receivables, including bad debt receivables, weather conditions, and our general working capital needs for ongoing operations.

Our primary sources of liquidity are cash generated from operations and borrowings under our Senior Credit Facility. We believe that cash generated from these sources will be sufficient to sustain current operations and to pay required taxes and quarterly cash distributions including the quarterly dividends to the holders of the Class A common stock and the Series A Preferred Stock for the next twelve months. We believe that the financing of any additional growth through acquisitions of businesses in 2018, may require further equity financing and/or further expansion of our Senior Credit Facility. Estimating our liquidity requirements is highly dependent on then-current market conditions, including forward prices for natural gas and electricity, and market volatility.

Liquidity Position

The following table details our total liquidity as of the date presented:

(\$ in thousands)	March 31, 2018
Cash and cash equivalents	\$ 21,065
Senior Credit Facility Availability ⁽¹⁾	43,811
Subordinated Debt Availability ⁽²⁾	25,000
Total Liquidity	\$ 89,876

(1) Subject to Senior Credit Facility borrowing base and covenant restrictions. See “—Senior Credit Facility.”

(2) The availability of the Subordinated Facility is dependent on our Founder's financial position and liquidity. See “—Subordinated Debt Facility.”

Our borrowings under the Senior Credit Facility are subject to material variations on a seasonal basis due to the timing of commodity purchases to satisfy natural gas inventory requirements and to meet customer demands during periods of peak usage.

In early 2018, the northeast experienced colder than normal weather conditions. This weather event created increased collateral requirements in the Northeast for us. As a result, we took steps to increase our liquidity, including exercising the accordion feature under our Senior Credit Facility. See “—Recent Developments—Expansion of Credit Facility” above.

Cash Flows

Our cash flows were as follows for the respective periods (in thousands):

	Three Months Ended March 31,		
	2018	2017 ⁽¹⁾	Change
Net cash (used in) provided by operating activities	\$(9,540)	\$23,294	\$(32,834)
Net cash used in investing activities	\$(15,795)	\$(112)	\$(15,683)
Net cash provided by (used in) financing activities	\$16,981	\$(17,193)	\$34,174

(1) Financial information has been recast to include results attributable to the acquisition of Perigee Energy, LLC by an affiliate on February 3, 2017. See Notes 2 and 4, "Basis of Presentation and Summary of Significant Accounting Policies" and "Acquisitions," respectively, for further discussion.

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

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Cash Flows Used in Operating Activities. Cash flows used in operating activities for the three months ended March 31, 2018 increased by \$32.8 million compared to the three months ended March 31, 2017. The increase was primarily the result of an increase in the changes in working capital for the three months ended March 31, 2018

Cash Flows Used in Investing Activities. Cash flows used in investing activities increased by \$15.7 million for the three months ended March 31, 2018, which was primarily due to funding of the HIKO acquisition during the three months ended March 31, 2018.

Cash Flows Provided by Financing Activities. Cash flows provided by financing activities increased by \$34.2 million for the three months ended March 31, 2018. The increase in cash flows provided by financing activities was primarily due to proceeds received from the issuance of our Series A Preferred Stock, decreased net paydown of our Senior Credit Facility, offset by additional dividends paid to holders of Series A Preferred Stock.

Sources of Liquidity and Capital Resources

Senior Credit Facility

On May 19, 2017 (the “Closing Date”), the Company, as guarantor, and Spark HoldCo (the “Borrower” and, together with SE, SEG, CenStar, CenStar Operating Company, LLC, Oasis, Oasis Power, LLC, the Provider Companies, the Major Energy Companies and Perigee Energy, LLC, each subsidiaries of Spark HoldCo, the “Co-Borrowers”), entered into a senior secured borrowing base credit facility (the “Senior Credit Facility”) in an aggregate amount of \$120.0 million. The Verde Companies became Co-Borrowers upon the completion of our acquisition of the Verde Companies. On November 2, 2017, the Company and Co-Borrowers entered into an amendment to the Senior Credit Facility, which entitled the Co-Borrowers to elect to increase total commitments under the Senior Credit Facility to \$200.0 million. In connection with any such increase in commitments, the various limits on advances for Working Capital Loans, Letters of Credit and Bridge Loans increased accordingly. On November 30, 2017, we exercised the accordion feature in the Senior Credit Facility, expanding commitments to an aggregate amount of \$185.0 million. On January 11, 2018 and January 23, 2018, we exercised the accordion feature in the Senior Credit Facility for an additional \$10.0 million and \$5.0 million, respectively, in commitments by existing lenders. These exercises of the accordion feature of the Senior Credit Facility brought total commitments under the Senior Credit Facility to \$200.0 million.

As of March 31, 2018, there was \$106.5 million outstanding under the Senior Credit Facility, and there was approximately \$43.8 million available borrowing capacity (which includes a \$49.7 million reduction for outstanding letters of credit).

The Senior Credit Facility will mature on May 19, 2019, and all amounts outstanding thereunder will be payable on the maturity date. Borrowings under the Bridge Loan sublimit will be repaid 25% per year on a quarterly basis (or 6.25% per quarter), with the remainder due at maturity. As of March 31, 2018, we had no outstanding borrowings under the Bridge Loan (as defined below).

Subject to applicable sublimits and terms of the Senior Credit Facility, borrowings are available for the issuance of letters of credit (“Letters of Credit”), working capital and general purpose revolving credit loans up to \$200.0 million (“Working Capital Loans”), and bridge loans up to \$50.0 million (“Bridge Loans”) for the purpose of partial funding for acquisitions. Borrowings under the Senior Credit Facility may be used to refinance loans outstanding under the previous Senior Credit Facility, pay fees and expenses in connection with the current Senior Credit Facility, finance ongoing working capital requirements and general corporate purpose requirements of the Co-Borrowers, to provide partial funding for acquisitions, as allowed under terms of the Senior Credit Facility, and to make open market purchases of the Company’s Class A common stock.

At our election, the interest rate for Working Capital Loans and Letters of Credit under the Senior Credit Facility is generally determined by reference to:

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the Eurodollar rate plus an applicable margin of up to 3.00% per annum (based on the prevailing utilization); or the alternate base rate plus an applicable margin of up to 2.00% per annum (based on the prevailing utilization). The alternate base rate is equal to the highest of (i) the prime rate (as published in the Wall Street Journal), (ii) the federal funds rate plus 0.50% per annum, or (iii) the reference Eurodollar rate plus 1.00%.

Bridge Loan borrowings, if any, under the Senior Credit Facility are generally determined by reference to:

the Eurodollar rate plus an applicable margin of 3.75% per annum; or the alternate base rate plus an applicable margin of 2.75% per annum. The alternate base rate is equal to the highest of (i) the prime rate (as published in the Wall Street Journal), (ii) the federal funds rate plus 0.50% per annum, or (iii) the reference Eurodollar rate plus 1.00%.

The Co-Borrowers will pay a commitment fee of 0.50% quarterly in arrears on the unused portion of the Senior Credit Facility. In addition, the Co-Borrowers will be subject to additional fees including an upfront fee, an annual agency fee, and letter of credit fees based on a percentage of the face amount of letters of credit payable to any syndicate member that issues a letter of credit.

The Senior Credit Facility contains covenants that, among other things, require the maintenance of specified ratios or conditions as follows:

Minimum Fixed Charge Coverage Ratio. Spark Energy, Inc. must maintain a minimum fixed charge coverage ratio of not less than 1.25 to 1.00. The Fixed Charge Coverage Ratio is defined as the ratio of (a) Adjusted EBITDA to (b) the sum of consolidated (with respect to the Company and the Co-Borrowers) interest expense (other than interest paid-in-kind in respect of any Subordinated Debt but including interest in respect of that certain promissory note made by CenStar Energy Corp in connection with the permitted acquisition from Verde Energy USA Holdings, LLC), letter of credit fees, commitment fees, acquisition earn-out payments (excluding earnout payments funded with proceeds from newly issued preferred or common equity of the Company), distributions, the aggregate amount of repurchases of the Company's Class A common stock or commitments for such purchases, taxes and scheduled amortization payments.

- **Maximum Total Leverage Ratio.** Spark Energy, Inc. must maintain a ratio of total indebtedness (excluding eligible subordinated debt) to Adjusted EBITDA of no more than 2.00 to 1.00.

As of March 31, 2018, the Company was in compliance with these ratios.

The Senior Credit Facility contains various negative covenants that limit the Company's ability to, among other things, do any of the following:

incur certain additional indebtedness;
grant certain liens;
engage in certain asset dispositions;
merge or consolidate;
make certain payments, distributions, investments, acquisitions or loans;
materially modify certain agreements; or
enter into transactions with affiliates.

The Senior Credit Facility is secured by pledges of the equity of the portion of Spark HoldCo owned by the Company, the equity of Spark HoldCo's subsidiaries, the Co-Borrowers' present and future subsidiaries, and substantially all of

the Co-Borrowers' and their subsidiaries' present and future property and assets, including accounts receivable, inventory and liquid investments, and control agreements relating to bank accounts.

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Spark Energy, Inc. is entitled to pay cash dividends to the holders of the Series A Preferred Stock and Class A common stock and will be entitled to repurchase up to an aggregate amount of 10,000,000 shares of the Company's Class A common stock through one or more normal course open market purchases through NASDAQ so long as: (a) no default exists or would result therefrom; (b) the Co-Borrowers are in pro forma compliance with all financial covenants before and after giving effect thereto; and (c) the outstanding amount of all loans and letters of credit does not exceed the borrowing base limits.

The Senior Credit Facility contains certain customary representations and warranties and events of default. Events of default include, among other things, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults and cross-acceleration to certain indebtedness, certain events of bankruptcy, certain events under ERISA, material judgments in excess of \$5.0 million, certain events with respect to material contracts, actual or asserted failure of any guaranty or security document supporting the Senior Credit Facility to be in full force and effect, failure of Nathan Kroeker to retain his position as President and Chief Executive Officer of the Company, and failure of W. Keith Maxwell III to retain his position as chairman of the board of directors. A default will also occur if at any time W. Keith Maxwell III ceases to, directly or indirectly, own at least 13,600,000 Class A and Class B shares on a combined basis (to be adjusted for any stock split, subdivisions or other stock reclassification or recapitalization), and a controlling percentage of the voting equity interest of the Company, and certain other changes in control. If such an event of default occurs, the lenders under the Senior Credit Facility would be entitled to take various actions, including the acceleration of amounts due under the facility and all actions permitted to be taken by a secured creditor.

In addition, the Senior Credit Facility contains affirmative covenants that are customary for credit facilities of this type. The covenants include delivery of financial statements, including any filings made with the SEC, maintenance of property and insurance, payment of taxes and obligations, material compliance with laws, inspection of property, books and records and audits, use of proceeds, payments to bank blocked accounts, notice of defaults and certain other customary matters.

Shelf Registration Statement

On October 7, 2016, we filed a registration statement under the Securities Act on Form S-3 covering offers and sales, from time to time, by us of up to \$200,000,000 of Class A common stock, preferred stock, depositary shares and warrants, and by the selling stockholders named therein of up to 22,679,126 shares of Class A common stock (the "Shelf Registration Statement"). The Shelf Registration Statement was declared effective on October 20, 2016.

Series A Preferred Stock Issuances

On January 26, 2018, the Company issued 2,000,000 shares of Series A Preferred Stock from the Shelf Registration Statement and received net proceeds from the offering of approximately \$48.9 million (net of underwriting discounts, commissions and a structuring fee).

At-the-Market Sales Agreement

On July 21, 2017, the Company entered into an at-the-market sales agreement (the "ATM Agreement") to sell the Company's Series A Preferred Stock, from time to time, having an aggregate offering price of up to \$50.0 million under the Shelf Registration Statement. The Company intends to use the proceeds from any sales pursuant to the ATM Agreement, after deducting the sales agent's commissions and the Company's offering expenses, for general corporate purposes, which may include, among other things, funding working capital, capital expenditures, liquidity for operational contingencies, debt repayments and acquisitions.

During the three months ended March 31, 2018, the Company sold an aggregate of 2,917 shares of Series A Preferred Stock under the ATM Agreement. The Company received net proceeds of \$0.1 million and paid compensation to the sales agent of less than \$0.1 million with respect to these sales.

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Subordinated Debt Facility

On December 27, 2016, the Company and Spark HoldCo jointly issued to Retailco, an entity owned by our Founder, a 5% subordinated note in the principal amount of up to \$25.0 million. The subordinated note allows us and Spark HoldCo to draw advances in increments of no less than \$1.0 million per advance up to the maximum principal amount of the subordinated note (the "Subordinated Facility"). The subordinated note matures approximately 3 ½ years following the date of issuance, and advances thereunder accrue interest at 5% per annum from the date of the advance. We have the right to capitalize interest payments under the subordinated note. The subordinated note is subordinated in certain respects to our Senior Credit Facility pursuant to a subordination agreement. We may pay interest and prepay principal on the subordinated note so long as we are in compliance with our covenants under the Senior Credit Facility, are not in default under the Senior Credit Facility and have minimum availability of \$5.0 million under our borrowing base under the Senior Credit Facility. Payment of principal and interest under the subordinated note is accelerated upon the occurrence of certain change of control transactions.

We may use the Subordinated Facility from time to time to enhance short term liquidity, but we do not view the Subordinated Facility as a material source of liquidity. Further, any availability under the Subordinated Facility is dependent on the Founder's financial position and liquidity. As of March 31, 2018, there were no outstanding borrowings under the Subordinated Facility.

Uses of Liquidity and Capital Resources

Repayment of Current Portion of Senior Credit Facility

Repayment of the \$7.5 million current portion of our Senior Credit Facility that is due to be repaid in 2018 has been repaid with proceeds of the offering of our Series A Preferred Stock in January 2018. Please see "—Sources of Liquidity and Capital Resources—Series A Preferred Stock Issuances."

Customer Acquisitions

Our customer acquisition strategy consists of customer growth obtained through opportunistic acquisitions complemented by traditional organic customer acquisitions. Our customer acquisition strategy requires significant capital resources. We fund our acquisition strategy with some combination of cash on hand and borrowings under our Senior Credit Facility.

Capital Expenditures

Capital expenditures for the three months ended March 31, 2018 included approximately \$4.3 million for customer acquisitions and \$0.8 million related to information systems improvements.

Dividends to Investors

The Spark HoldCo, LLC Agreement provides, to the extent cash is available, for distributions pro rata to the holders of Spark HoldCo units such that we receive an amount of cash sufficient to cover the estimated taxes payable by us, the targeted quarterly dividend we intend to pay to holders of our Class A common stock, the quarterly dividends on our Series A Preferred Stock, and payments under the Tax Receivable Agreement we have entered into with Spark HoldCo, Retailco and NuDevco Retail.

During the three months ended March 31, 2018, we paid dividends to holders of our Class A common stock for the quarter ended December 31, 2017 of approximately \$0.18125 per share or \$2.4 million in the aggregate. On April 19, 2018, our Board of Directors declared a quarterly dividend of \$0.18125 per share for the first quarter of 2018 to holders of the Class A common stock as of May 31, 2018. This dividend will be paid on June 14, 2018. Our ability

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to pay dividends in the future will depend on many factors, including the performance of our business in the future and restrictions under our Senior Credit Facility. The financial covenants included in the Senior Credit Facility require the Company to retain increasing amounts of working capital over time, which may have the effect of restricting our ability to pay dividends. Management does not currently believe that the financial covenants in the Senior Credit Facility will cause any such restrictions.

As of March 31, 2018, in order to pay our stated dividends to holders of our Class A common stock and corresponding distributions to holders of our non-controlling interest, Spark HoldCo generally is required to distribute approximately \$15.6 million on an annualized basis to holders of its Spark HoldCo units. If our business does not generate enough cash for Spark HoldCo to make such distributions, we may have to borrow to pay our dividend. If our business generates cash in excess of the amounts required to pay an annual dividend of \$0.725 per share of Class A common stock, we currently expect to reinvest any such excess cash flows in our business and not increase the dividends payable to holders of our Class A common stock. However, our future dividend policy is within the discretion of our Board of Directors and will depend upon various factors, including the results of our operations, our financial condition, capital requirements and investment opportunities.

For the quarter ended March 31, 2018, the Company paid \$0.9 million related to dividends to holders of Series A Preferred Stock. As of March 31, 2018, the Company had accrued \$2.0 million related to dividends to holders of our Series A Preferred Stock. This dividend was paid on April 16, 2018. In accordance with the terms of the Series A Preferred Stock on April 19, 2018, our Board of Directors declared a quarterly cash dividend in the amount of \$0.546875 per share for the Series A Preferred Stock. The dividend will be paid on July 16, 2018 to holders of record on July 2, 2018 of the Series A Preferred Stock. The Company anticipates Series A Preferred Stock dividends declared for the year ended December 31, 2018 of \$2.1875 per share or \$8.1 million in the aggregate based on the Series A Preferred Stock outstanding as of March 31, 2018.

Tax Receivable Agreement

We expect to make payments pursuant to the Tax Receivable Agreement that we have entered into with Retailco LLC (as assignee of NuDevco Retail Holdings), NuDevco Retail and Spark HoldCo in connection with our IPO. Except in cases where we elect to terminate the Tax Receivable Agreement early (or the Tax Receivable Agreement is terminated early due to certain mergers or other changes of control) or we have available cash but fail to make payments when due, generally we may elect to defer payments due under the Tax Receivable Agreement for up to five years if we do not have available cash to satisfy our payment obligations under the Tax Receivable Agreement or if our contractual obligations limit our ability to make these payments. Any such deferred payments under the Tax Receivable Agreement generally will accrue interest. If we were to defer substantial payment obligations under the Tax Receivable Agreement on an ongoing basis, the accrual of those obligations would reduce the availability of cash for other purposes, but we would not be prohibited from paying dividends on our Class A common stock.

We met the threshold coverage ratio required to fund the second TRA Payment to Retailco and NuDevco Retail under the Tax Receivable Agreement during the four-quarter period ending September 30, 2016, resulting in an initial TRA Payment of \$1.4 million becoming due in December 2016. On November 6, 2016, Retailco and NuDevco Retail granted us the right to defer the TRA Payment until May 2018. During the period of time when we have elected to defer the TRA Payment, the outstanding payment amount will accrue interest at a rate calculated in the manner provided for under the Tax Receivable Agreement. The initial payment of \$1.4 million under the Tax Receivable Agreement due in May 2018 was classified as a current liability in our consolidated balance sheet at March 31, 2018 and December 31, 2017.

We met the threshold coverage ratio required to fund the third TRA Payment to Retailco and NuDevco Retail under the Tax Receivable Agreement during the four-quarter periods ending September 30, 2017. As such, the third payment

under the Tax Receivable Agreement of \$2.1 million due in April 2018 has been classified as current in our consolidated balance sheet at March 31, 2018 and December 31, 2017.

We expect to meet the threshold coverage ratio required to fund the fourth payment to Retailco and NuDevco Retail under the Tax Receivable Agreement during the four-quarter period ending September 30, 2018. As such, the fourth

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payment under the Tax Receivable Agreement of an estimated \$2.4 million due in late 2018 has been classified as current in our consolidated balance sheet at March 31, 2018 and December 31, 2017. See Note 14 "Transactions with Affiliates" in the notes to our condensed consolidated financial statements for additional details on the Tax Receivable Agreement.

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("U.S. Tax Reform"), which enacts a wide range of changes to the U.S. Corporate income tax system. For U.S. federal purposes, a corporate statutory income tax rate of 21% was utilized for the 2018 tax year. The Company remeasured its U.S. federal deferred tax assets and liabilities as of December 31, 2017 using the newly enacted 21% corporate tax rate, the rate expected to be applied when the temporary differences are settled.

Verde Companies Promissory Note

In connection with the financing of the Verde Companies acquisition, on July 1, 2017, CenStar issued a promissory note in the aggregate principal amount of \$20.0 million (the "Verde Promissory Note") for a portion of the purchase price. The Verde Promissory Note required 18 monthly installments beginning on August 1, 2017, and accrued interest at 5% per annum from the date of issuance. The Verde Promissory Note, including principal and interest, was unsecured, but is guaranteed by the Company. Payment of principal and interest under the Verde Promissory Note was accelerated upon the occurrence of certain events of default.

On January 12, 2018, in connection with the Earnout Termination Agreement (defined below), CenStar issued to the seller of the Verde Companies an amended and restated promissory note (the "Amended and Restated Verde Promissory Note"), which amended and restated the Verde Promissory Note. The Amended and Restated Verde Promissory Note, effective January 12, 2018, retains the same maturity date as the Verde Promissory Note. The Amended and Restated Verde Promissory Note bears interest at a rate of 9% per annum beginning January 1, 2018. Principal and interest remain payable monthly on the first day of each month in which the Amended and Restated Verde Promissory Note is outstanding. CenStar will continue to deposit a portion of each payment under the Amended and Restated Verde Promissory Note into an escrow account, which serves as security for certain indemnification claims and obligations under the purchase agreement. The amount deposited into the escrow account has been increased from the Verde Promissory Note. All principal and interest payable under the Amended and Restated Verde Promissory Note remains subject to acceleration upon the occurrence of certain events of default, including the failure to pay any principal or interest when due under the Amended and Restated Verde Promissory Note. As of December 31, 2017, there was \$14.6 million outstanding under the Verde Promissory note. As of March 31, 2018, there was \$11.3 million outstanding under the Amended and Restated Verde Promissory Note, which is due in 2018.

Verde Earnout Termination Note

On January 12, 2018, we entered into an Agreement to Terminate Earnout Payments (the "Earnout Termination Agreement") that terminates our obligation to make any required earnout payments under the purchase agreement for our acquisition of the Verde Companies in exchange for CenStar's issuance to the Seller of a promissory note in the principal amount of \$5.9 million (the "Verde Earnout Termination Note"). The Verde Earnout Termination Note, effective January 12, 2018, matures on June 30, 2019 (subject to early maturity upon certain events) and bears interest at a rate of 9% per annum. CenStar is permitted to withhold amounts otherwise due at maturity related to certain indemnifiable matters under the purchase agreement for our acquisition of the Verde Companies. Interest is payable monthly on the first day of each month in which the Verde Earnout Termination Note is outstanding, beginning on its issuance date. The principal and any outstanding interest is due on June 30, 2019. All principal and interest payable under the Verde Earnout Termination Note is accelerated upon the occurrence of certain events of default, including the failure to pay any principal or interest when due under the Verde Earnout Termination Note. The Company recorded the Verde Earnout Termination Note of \$5.9 million as long-term debt as of March 31, 2018 and

December 31, 2017.

Ongoing Obligations in Connection with Acquisitions

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The Company is obligated to make earnout and installment payments in connection with the acquisition of the Major Energy Companies, as more fully described in this Quarterly Report on Form 10-Q. In the case of the Major Energy Companies acquisition, these maximum payments under the original agreement could have been as much as \$35 million depending upon operating results and the customer counts through 2018; however, given the results, payments are expected to be significantly less than the maximum. See further discussion related to the valuation of the earnouts in Note 10 "Fair Value Measurements" to the Company's quarterly financial statements included herein.

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Off-Balance Sheet Arrangements

As of March 31, 2018, we had no material off-balance sheet arrangements.

Related Party Transactions

For a discussion of related party transactions, see Note 14 "Transactions with Affiliates" in the unaudited condensed consolidated financial statements.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no changes to these policies and estimates since the date of our Annual Report on Form 10-K for the year ended December 31, 2017.

Recent Accounting Pronouncements

Standards adopted in 2018

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The Company adopted the new standard effective January 1, 2018 utilizing the full retrospective approach. The adoption of the new standard resulted in no impact to our total revenues and operating income for the years ended December 31, 2017 and 2016, since our contracts with customers identify the delivery of products and services that are individually distinct performance obligations and revenue is recognized when performance obligations are satisfied. As a result, receivable balances related to revenue, including amounts related to unbilled revenue, are reflected as accounts receivable in the condensed consolidated balance sheets. Other than accounts receivable, revenue related contract assets and liabilities are immaterial.

The standard requires expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. See Note 3 "Revenues" for further disclosure.

The Company's asset optimization activities meet the definition of trading activities per FASB ASC Topic 815, Derivatives and Hedging, and are therefore excluded from the scope of Revenue from Contracts with Customers (Topic 606).

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 provides guidance on the presentation and classification of cash flow issues in the statement of cash flows. This ASU has been applied using a retrospective transition method for each period presented. The Company adopted ASU 2016-15 effective January 1, 2018 and resulted in the reclassification of contingent consideration payments made after a business combination as cash outflows for operating and financing activities on a retrospective basis. Because of the change in accounting guidance, we reclassified acquisition related payments of approximately \$1.1 million from cash flows from investing activities to cash flows from operating activities for the three months ended March 31, 2017. We reclassified acquisition related payments of approximately \$8.4 million from cash flows from investing activities to cash flows from financing activities for the three months ended March 31, 2017.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals)

of assets or businesses. The definition of a business affects many areas of accounting, including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for annual periods beginning after

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December 15, 2017, including interim periods within those periods and is to be applied prospectively to transactions on or after the adoption date. The Company adopted ASU 2017-01 effective January 1, 2018, and applied the guidance in the evaluation of whether the HIKO acquisition should be accounted for as an acquisition of assets or a business.

Standards Being Evaluated/Standards Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 amends the existing accounting standards for lease accounting by requiring entities to include substantially all leases on the balance sheet by requiring the recognition of right-of-use assets and lease liabilities for all leases. Entities may elect to not recognize leases with a maximum possible term of less than 12 months. For lessees, a lease is classified as finance or operating and the asset and liability are initially measured at the present value of the lease payments. For lessors, accounting for leases is largely unchanged from previous guidance. ASU 2016-02 also requires qualitative disclosures along with certain specific quantitative disclosures for both lessees and lessors. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and are effective for interim periods in the year of adoption. The ASU should be applied using a modified retrospective approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments in this update, an entity should perform its annual or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 should be applied on a prospective basis and is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

Contingencies

In the ordinary course of business, we may become party to lawsuits, administrative proceedings and governmental investigations, including regulatory and other matters. Except as described in Part II, Item 1—Legal Proceedings, as of March 31, 2018, management does not believe that any of our outstanding lawsuits, administrative proceedings or investigations could result in a material adverse effect.

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

For a discussion of the status of current litigation and governmental investigations, see Note 13 "Commitments and Contingencies" in the Company's unaudited condensed consolidated financial statements.

Emerging Growth Company Status

We are an "emerging growth company" within the meaning of the federal securities laws. For as long as we are an emerging growth company, we will not be required to comply with certain requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, the reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and the exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of

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the Securities Act for complying with new or revised accounting standards, but we have irrevocably opted out of the extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We intend to take advantage of these exemptions until we are no longer an emerging growth company. We will cease to be an “emerging growth company” upon the earliest of: (i) the last day of the fiscal year in which we have \$1.07 billion or more in annual revenues; (ii) the date on which we become a “large accelerated filer” (the fiscal year-end on which the total market value of our common equity securities held by non-affiliates is \$700 million or more as of June 30); (iii) the date on which we issue more than \$1.0 billion of non-convertible debt over a three-year period; or (iv) the last day of 2019.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in commodity prices and interest rates, as well as counterparty credit risk. We employ established policies and procedures to manage our exposure to these risks.

Commodity Price Risk

We hedge and procure our energy requirements from various wholesale energy markets, including both physical and financial markets and through short and long term contracts. Our financial results are largely dependent on the margin we are able to realize between the wholesale purchase price of natural gas and electricity plus related costs and the retail sales price we charge our customers. We actively manage our commodity price risk by entering into various derivative or non-derivative instruments to hedge the variability in future cash flows from fixed-price forecasted sales and purchases of natural gas and electricity in connection with our retail energy operations. These instruments include forwards, futures, swaps, and option contracts traded on various exchanges, such as NYMEX and Intercontinental Exchange, or ICE, as well as over-the-counter markets. These contracts have varying terms and durations, which range from a few days to a few years, depending on the instrument. Our asset optimization group utilizes similar derivative contracts in connection with its trading activities to attempt to generate incremental gross margin by effecting transactions in markets where we have a retail presence. Generally, any of such instruments that are entered into to support our retail electricity and natural gas business are categorized as having been entered into for non-trading purposes, and instruments entered into for any other purpose are categorized as having been entered into for trading purposes. Our net loss on non-trading derivative instruments net of cash settlements was \$51.6 million and \$13.9 million for the three months ended March 31, 2018 and 2017, respectively.

We have adopted risk management policies to measure and limit market risk associated with our fixed-price portfolio and our hedging activities. For additional information regarding our commodity price risk and our risk management policies, see “Item 1A—Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017.

We measure the commodity risk of our non-trading energy derivatives using a sensitivity analysis on our net open position. As of March 31, 2018, our Gas Non-Trading Fixed Price Open Position (hedges net of retail load) was a short position of 39,502 MMBtu. An increase of 10% in the market prices (NYMEX) from their March 31, 2018 levels would have increased the fair market value of our net non-trading energy portfolio by less than \$0.1 million. Likewise, a decrease of 10% in the market prices (NYMEX) from their March 31, 2018 levels would have decreased the fair market value of our non-trading energy derivatives by less than \$0.1 million. As of March 31, 2018, our Electricity Non-Trading Fixed Price Open Position (hedges net of retail load) was a short position of 63,742 MWhs. An increase of 10% in the forward market prices from their March 31, 2018 levels would have decreased the fair market value of our net non-trading energy portfolio by \$0.1 million. Likewise, a decrease of 10% in the forward market prices from their March 31, 2018 levels would have increased the fair market value of our non-trading energy derivatives by \$0.1 million.

Credit Risk

In many of the utility services territories where we conduct business, POR programs have been established, whereby the local regulated utility purchases our receivables, and becomes responsible for billing the customer and collecting payment from the customer. This service results in substantially all of our credit risk being linked to the applicable utility and not to our end-use customer in these territories. Approximately 68% of our retail revenues were derived from territories in which substantially all of our credit risk was directly linked to local regulated utility companies for the three months ended March 31, 2018, all of which had investment grade ratings as of such date. During the same period, we paid these local regulated utilities a weighted average discount of approximately 1.3% of total revenues for customer credit risk protection. In certain of the POR markets in which we operate, the utilities limit their collections exposure by retaining the ability to transfer a delinquent account back to us for collection when collections are past due for a specified period.

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If our collection efforts are unsuccessful, we return the account to the local regulated utility for termination of service. Under these service programs, we are exposed to credit risk related to payment for services rendered during the time between when the customer is transferred to us by the local regulated utility and the time we return the customer to the utility for termination of service, which is generally one to two billing periods. We may also realize a loss on fixed-price customers in this scenario due to the fact that we will have already fully hedged the customer's expected commodity usage for the life of the contract.

In non-POR markets (and in POR markets where we may choose to direct bill our customers), we manage customer credit risk through formal credit review in the case of commercial customers, and credit score screening, deposits and disconnection for non-payment, in the case of residential customers. Economic conditions may affect our customers' ability to pay bills in a timely manner, which could increase customer delinquencies and may lead to an increase in bad debt expense. Our bad debt expense for the three months ended March 31, 2018 was approximately 2.6%, of non-POR market retail revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Drivers of Our Business" for an analysis of our bad debt expense related to non-POR markets during the three months ended March 31, 2018.

We are exposed to wholesale counterparty credit risk in our retail and asset optimization activities. We manage this risk at a counterparty level and secure our exposure with collateral or guarantees when needed. At March 31, 2018, approximately \$0.9 million of our total exposure of \$7.4 million was either with a non-investment grade customer or otherwise not secured with collateral or a guarantee.

Interest Rate Risk

We are exposed to fluctuations in interest rates under our variable-price debt obligations. At March 31, 2018, we were co-borrowers under the Senior Credit Facility, under which \$106.5 million of variable rate indebtedness was outstanding. Based on the average amount of our variable rate indebtedness outstanding during the three months ended March 31, 2018, a 1% percent increase in interest rates would have resulted in additional annual interest expense of approximately \$1.1 million. We do not currently employ interest rate hedges, although we may choose to do so in the future.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on this evaluation, management concluded that our disclosure controls and procedures were effective as of March 31, 2018 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are the subject of lawsuits and claims arising in the ordinary course of business from time to time. Management cannot predict the ultimate outcome of such lawsuits and claims. While the lawsuits and claims are asserted for amounts that may be material, should an unfavorable outcome occur, management does not currently expect that any currently pending matters will have a material adverse effect on our financial position or results of operations except as described below. See Note 13 "Commitments and Contingencies" to the unaudited consolidated financial statements for a description of certain other proceedings.

The Company is the subject of the following lawsuits:

Halifax-American Energy Company, LLC et al v. Provider Power, LLC, Electricity N.H., LLC, Electricity Maine, LLC, Emile Clavet and Kevin Dean is a lawsuit initially filed on June 12, 2014, in the Rockingham County Superior Court, State of New Hampshire, alleging various claims related to the Provider Companies' employment of a sales contractor formerly employed with one or more of the plaintiffs, including misappropriation of trade secrets and tortious interference with a contractual relationship. The relief sought included compensatory and punitive damages and attorney's fees. The dispute occurred prior to the Company's acquisition of the Provider Companies. Portions of the original claim proceeded to trial and on January 19, 2016, a jury found in favor of the plaintiffs. Damages totaling approximately \$0.6 million and attorney's fees totaling approximately \$0.3 million were awarded to the plaintiffs. On May 4, 2016, following post-verdict motions, the defendants filed an appeal in the State of New Hampshire Supreme Court, appealing, among other things the failure of the trial court to direct a verdict for the defendants, to set aside the verdict, or grant judgment for the defendants, and the trial court's award of certain attorneys' fees. The appellate hearing was held on June 1, 2017. The New Hampshire Supreme Court decided the appeal on February 9, 2018, upholding the jury's verdict and the trial court's rulings in all respects. On March 21, 2018, the trial court awarded Final Judgment to plaintiffs in the amount of \$0.9 million, pursuant to the parties' Joint Stipulation regarding Judgment. On March 28, 2018, plaintiffs moved to modify the final judgment because it does not factor in statutory interest. The trial court granted the motion to modify the judgment on April 6, 2018 and costs were assessed in the matter on April 5, 2018. The judgment, with costs, attorney fees, and interest total \$1.0 million. As of March 31, 2018, the Company has accrued approximately \$1.0 million in contingent liabilities related to this litigation. Initial damages and attorneys' fees have been factored into the purchase price for the Provider Companies, and the Company believes it has full indemnity coverage for any actual exposure in this award.

Katherine Veilleux and Jennifer Chon, individually and on behalf of all other similarly situated v. Electricity Maine, LLC, Provider Power, LLC, Spark HoldCo, LLC, Kevin Dean and Emile Clavet is a purported class action lawsuit filed on November 18, 2016 in the United States District Court of Maine, alleging that Electricity Maine, LLC, an entity acquired by Spark HoldCo, LLC in mid-2016, enrolled and re-enrolled customers through fraudulent and misleading advertising, promotions, and other communications prior to the acquisition. Plaintiffs further allege that some improper enrollment and re-enrollment practices have continued to the present date. Plaintiffs allege the following claims against all defendants: violation of the Maine Unfair Trade Practices Act, violation of RICO, negligence, negligent misrepresentation, fraudulent misrepresentation, unjust enrichment and breach of contract. Plaintiffs seek unspecified damages for themselves and the purported class, rescission of contracts with Electricity Maine, injunctive relief, restitution, and attorney's fees. By order dated November 15, 2017, the Court, pursuant to Rule 12(b)(6), dismissed all claims against Spark HoldCo except the claims for violation of the Maine Unfair Trade Practices Act and for unjust enrichment. Discovery limited to issues relevant to class certification under Rule 23 of the Federal Rules of Civil Procedure has just begun. Spark HoldCo intends to vigorously defend this matter and the allegations asserted therein, including the request to certify a class. Given the early stages of this matter, we cannot predict the outcome or consequences of this case at this time. The Company believes it is fully indemnified for this

litigation matter, subject to certain limitations.

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Gillis et al. v. Respond Power, LLC is a purported class action lawsuit that was originally filed on May 21, 2014 in the Philadelphia Court of Common Pleas. On June 23, 2014, the case was removed to the United States District Court for the Eastern District of Pennsylvania. On September 15, 2014, the plaintiffs filed an amended class action complaint seeking a declaratory judgment that the disclosure statement contained in Respond Power, LLC's variable rate contracts with Pennsylvania consumers limited the variable rate that could be charged to no more than the monthly rate charged by the consumers' local utility company. The plaintiffs also allege that Respond Power, LLC (i) breached its variable rate contract with Pennsylvania consumers, and the covenant of good faith and fair dealing therein, by charging rates in excess of the monthly rate charged by the consumers' local utility company; (ii) engaged in deceptive conduct in violation of the Pennsylvania Unfair Trade Practices and Consumer Protection Law; and (iii) engaged in negligent misrepresentation and fraudulent concealment in connection with purported promises of savings. The amount of damages sought is not specified. By order dated August 31, 2015, the district court denied class certification. The plaintiffs appealed the district court's denial of class certification to the United States Court of Appeals for the Third Circuit. The United States Court of Appeals for the Third Circuit vacated the district court's denial of class certification and remanded the matter to the district court for further proceedings. The district court ordered briefing on defendant's motion to dismiss. Respond Power LLC filed a motion to dismiss the plaintiffs' declaratory judgment and breach of contract claims (the class claims) on June 30, 2017. The motion is fully briefed and submitted, and the parties are awaiting a decision from the Court. The Company currently cannot predict the outcome or consequences of this case at this time. The Company believes it is fully indemnified for this litigation matter, subject to certain limitations.

Jurich v. Verde Energy USA, Inc., is a class action originally filed on March 3, 2015 in the United States District Court for the District of Connecticut and subsequently re-filed on October 8, 2015 in the Superior Court of Judicial District of Hartford, State of Connecticut. The Amended Complaint asserts that the Verde Companies charged rates in violation of its contracts with Connecticut customers and alleges (i) violation of the Connecticut Unfair Trade Practices Act, Conn. Gen. Stat. §§ 42-110a et seq., and (ii) breach of the covenant of good faith and fair dealing. Plaintiffs are seeking unspecified actual and punitive damages for the class and injunctive relief. The parties have exchanged initial discovery. Plaintiffs' motion for class certification was briefed and the Verde Companies filed its opposition to plaintiffs' motion for class certification on October 17, 2017. On December 6, 2017, the Court granted the plaintiffs' class certification motion. However, the Court opted not to send out class notices, and instead directed the parties to submit briefing on legal issues that could result in a modification or decertification of the class. The parties completed that briefing on April 16, 2018. The parties expect the court to schedule oral argument at some point in spring or summer 2018. As part of an agreement in connection with the acquisition of the Verde Companies, the original owners of the Verde Companies are handling this matter. Given the early stage of this matter, we cannot predict the outcome or consequences of this case at this time.

Richardson et al v. Verde Energy USA, Inc. is a purported class action filed on November 25, 2015 in the United States District Court for the Eastern District of Pennsylvania alleging that the Verde Companies violated the Telephone Consumer Protection Act by placing marketing calls using an automatic telephone dialing system or a prerecorded voice to the purported class members' cellular phones without prior express consent and by continuing to make such calls after receiving requests for the calls to cease. Plaintiffs are seeking statutory damages for the purported class and injunctive relief prohibiting Verde Companies' alleged conduct. Discovery on the claims of the named plaintiffs closed on November 10, 2017, and dispositive motions on the named plaintiffs' claims were filed on November 24, 2017. Plaintiffs' responses to the dispositive motions were filed on December 22, 2017 and Verde Companies' reply briefs were filed on January 5, 2018. To date, no hearing has been set on these motions. On March 19, 2018, Plaintiffs filed a Notice of Supplemental Authority regarding the D.C. Circuit's decision in *ACA Int'l v. FCC*. Verde Companies filed a Notice of Supplemental Authority regarding the ACA decision on March 23, 2018. As part of an agreement in connection with the acquisition of the Verde Companies, the original owners of the Verde Companies are handling this matter. Given the early stages of this matter, we cannot predict the outcome or consequences of this case at this time.

Saul Horowitz, as Sellers' Representative for the former owners of the Major Energy Companies v. National Gas & Electric, LLC (NG&E) and Spark Energy, Inc. (Spark), has filed a lawsuit asserting claims of fraudulent inducement against NG&E, breach of contract against NG&E and the Company, and tortious interference with

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contract against the Company related to the membership interest purchase, subsequent transfer, and associated earnout agreements with the Major Energy Companies' former owners. The relief sought includes unspecified compensatory and punitive damages, prejudgment and post judgment interest, and attorneys' fees. The lawsuit was filed on October 10, 2017 in the United States District Court for the Southern District of New York, and after the Company and NG&E filed a motion to dismiss, Horowitz filed an Amended Complaint, asserting the same four claims. The Company and NG&E filed a motion to dismiss the fraud and tortious interference claims on January 15, 2018. Briefing on the motion to dismiss concluded on March 1, 2018, and the Court's decision to rule or schedule oral argument is pending as of the date these financial statements are issued. Discovery has commenced and written discovery requests have been exchanged between the parties. This case is currently set for trial on September 9, 2019. The Company and NG&E deny the allegations asserted and intend to vigorously defend this matter. Given the early stages of this matter, we cannot predict the outcome or consequences of this case at this time.

The Company is the subject of regulatory matters, as described below.

On April 9, 2018 the Attorney General for the State of Illinois filed a complaint against Major Energy Electric Services, LLC (Major) asserting claims that Major engaged in a pattern and practice of deceptive conduct intended to defraud Illinois consumers through door-to-door and telephone solicitations, in-person solicitations at retail establishments, advertisements on its website and direct mail advertisements to sign up for electricity services. The complaint seeks injunctive relief and monetary damages representing the amounts Illinois consumers have allegedly lost due to fraudulent marketing activities. The Attorney General also requests civil penalties under the Consumer Fraud Act and to revoke Major's authority to operate in the state. The complaint was filed in the Circuit Court of Cook County, Illinois, County Department, Chancery Division. Major has not yet filed its initial responsive pleadings in this case. Major denies the allegations asserted and intends to vigorously defense this matter. Given the early stages of this matter, we cannot predict the outcome or consequences of this case at this time.

Spark Energy, LLC is the subject of two current investigations by the Connecticut Public Utilities Regulatory Authority ("PURA"). The first investigation constitutes a notice of violation and assessment of civil penalty in the amount of \$0.9 million primarily for Spark Energy, LLC's alleged failure to comply with regulations implemented in 2016 requiring that customer bills include any changes to existing rates effective for the next billing cycle. Spark Energy, LLC has requested a hearing in this matter which has been scheduled for May 11, 2018. The second investigation involves an inquiry into the marketing practices of one of Spark Energy, LLC's former outbound telemarketing vendors. Certain agents managed by this vendor were allegedly using an unauthorized script in outbound marketing calls. Spark Energy, LLC has already responded to several interrogatories regarding this matter and is awaiting further instruction from PURA. We are unable to predict the outcome of these proceedings. While investigations of this nature have become common and are often resolved in a manner that allows the retailer to continue operating in Connecticut, there can be no assurance that PURA will not take more severe action.

Item 1A. Risk Factors.

Security holders and potential investors in our securities should carefully consider the risk factors under "Item 1A—Risk Factors" in our 2017 Annual Report on Form 10-K, which are incorporated herein by reference. Except as described below, there has been no material change in our risk factors from those described in the 2017 Annual Report on Form 10-K. These risks are not the sole risks for investors. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

Risks and Uncertainties Related to our Review of Strategic Alternatives.

On March 8, 2018, we announced that our Board had engaged Morgan Stanley as a financial advisor to explore strategic alternatives. There can be no assurance that this review will result in a transaction or other strategic alternative of any kind. In addition, the pendency of this strategic review exposes us to certain risks and uncertainties, including the diversion of management's time to the strategic review, which could negatively affect our business.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits

Exhibit	Exhibit Description	Incorporated by Reference		
		Form	Exhibit Number	Filing Date SEC File No.
2.1#	Membership Interest Purchase Agreement, by and among Spark Energy, Inc., Spark HoldCo, LLC, Provider Power, LLC, Kevin B. Dean and Emile L. Clavet, dated as of May 3, 2016.	10-Q	2.1	5/5/2016 001-36559
2.2#	Membership Interest Purchase Agreement, by and among Spark Energy, Inc., Spark HoldCo, LLC, Retailco, LLC and National Gas & Electric, LLC, dated as of May 3, 2016.	10-Q	2.2	5/5/2016 001-36559
2.3#	Amendment No. 1 to the Membership Interest Purchase Agreement, dated as of July 26, 2016, by and among Spark Energy, Inc., Spark HoldCo, LLC, Provider Power, LLC, Kevin B. Dean and Emile L. Clavet.	8-K	2.1	8/1/2016 001-36559
2.4#	Membership Interest and Stock Purchase Agreement, by and among Spark Energy, Inc., CenStar Energy Corp. and Verde Energy USA Holdings, LLC, dated as of May 5, 2017.	10-Q	2.4	5/8/2017 001-36559
2.5	First Amendment to the Membership Interest and Stock Purchase Agreement, dated July 1, 2017, by and among Spark Energy, Inc., CenStar Energy Corp., and Verde Energy USA Holdings, LLC.	8-K	2.1	7/6/2017 001-36559
2.6#	Agreement to Terminate Earnout Payments, effective January 12, 2018, by and among Spark Energy, Inc., CenStar Energy Corp., Woden Holdings, LLC (fka Verde Energy USA Holdings, LLC), Verde Energy USA, Inc., Thomas FitzGerald, and Anthony Mench.	8-K	2.1	1/16/2018 001-36559
2.7#	Asset Purchase Agreement, dated March 7, 2018, by and between Spark HoldCo, LLC and National Gas & Electric, LLC.	10-K	2.7	3/9/2018 001-36559
3.1	Amended and Restated Certificate of Incorporation of Spark Energy, Inc.	8-K	3.1	8/4/2014 001-36559
3.2	Amended and Restated Bylaws of Spark Energy, Inc.	8-K	3.2	8/4/2014 001-36559
3.3	Certificate of Designations of Rights and Preferences of 8.75% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock	8-A	5	3/14/2017 001-36559
4.1	Class A Common Stock Certificate	S-1	4.1	6/30/2014 333-196375
10.1	Promissory Note of CenStar Energy Corp., effective January 12, 2018, payable to Woden Holdings, LLC	8-K	10.1	1/16/2018 001-36559
10.2	Amended and Restated Promissory Note of CenStar Energy Corp., effective January 12, 2018, payable to Woden Holdings, LLC.	8-K	10.2	1/16/2018 001-36559
10.3	Amendment No. 1, dated as of January 26, 2018, to Third Amended and Restated Limited Liability Company Agreement of Spark Holdco, LLC.	8-K	10.1	1/26/2018 001-36559
10.4	Termination Agreement, dated March 7, 2018, by and among Spark HoldCo, LLC, Retailco Services, LLC and NuDevco Retail, LLC.	10-K	10.43	3/9/2018 001-36559
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.			
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.			
32**	Certifications pursuant to 18 U.S.C. Section 1350.			
101.INS*	XBRL Instance Document.			

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101.SCH* XBRL Schema Document.
101.CAL* XBRL Calculation Document.
101.LAB* XBRL Labels Linkbase Document.
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* Filed herewith

** Furnished herewith

The registrant agrees to furnish supplementally a copy of any omitted schedule to the Commission upon request

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APPENDIX A

CFTC. The Commodity Futures Trading Commission.

ERCOT. The Electric Reliability Council of Texas, the independent system operator and the regional coordinator of various electricity systems within Texas.

FERC. The Federal Energy Regulatory Commission, a regulatory body that regulates, among other things, the transmission and wholesale sale of electricity and the transportation of natural gas by interstate pipelines in the United States.

ISO. An independent system operator. An ISO manages and controls transmission infrastructure in a particular region.

MMBtu. One million British Thermal Units, a standard unit of heating equivalent measure for natural gas. A unit of heat equal to 1,000,000 Btus, or 1 MMBtu, is the thermal equivalent of approximately 1,000 cubic feet of natural gas.

MWh. One megawatt hour, a unit of electricity equal to 1,000 kilowatt hours (kWh), or the amount of energy equal to one megawatt of constant power expended for one hour of time.

Non-POR Market. A non-purchase of accounts receivable market.

NYPSC. New York Public Service Commission.

POR Market. A purchase of accounts receivable market.

RCE. A residential customer equivalent, refers to a natural gas customer with a standard consumption of 100 MMBtus per year or an electricity customer with a standard consumption of 10 MWhs per year.

REP. A retail electricity provider.

RTO. A regional transmission organization. A RTO, similar to an ISO, is a third party entity that manages transmission infrastructure in a particular region.

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INDEX TO EXHIBITS

Exhibit	Exhibit Description	Incorporated by Reference		
		Form	Exhibit Number	Filing Date SEC File No.
2.1#	<u>Membership Interest Purchase Agreement, by and among Spark Energy, Inc., Spark HoldCo, LLC, Provider Power, LLC, Kevin B. Dean and Emile L. Clavet, dated as of May 3, 2016.</u>	10-Q	2.1	5/5/2016 001-36559
2.2#	<u>Membership Interest Purchase Agreement, by and among Spark Energy, Inc., Spark HoldCo, LLC, Retailco, LLC and National Gas & Electric, LLC, dated as of May 3, 2016.</u>	10-Q	2.2	5/5/2016 001-36559
2.3#	<u>Amendment No. 1 to the Membership Interest Purchase Agreement, dated as of July 26, 2016, by and among Spark Energy, Inc., Spark HoldCo, LLC, Provider Power, LLC, Kevin B. Dean and Emile L. Clavet.</u>	8-K	2.1	8/1/2016 001-36559
2.4#	<u>Membership Interest and Stock Purchase Agreement, by and among Spark Energy, Inc., CenStar Energy Corp. and Verde Energy USA Holdings, LLC, dated as of May 5, 2017.</u>	10-Q	2.4	5/8/2017 001-36559
2.5	<u>First Amendment to the Membership Interest and Stock Purchase Agreement, dated July 1, 2017, by and among Spark Energy, Inc., CenStar Energy Corp., and Verde Energy USA Holdings, LLC.</u>	8-K	2.1	7/6/2017 001-36559
2.6#	<u>Agreement to Terminate Earnout Payments, effective January 12, 2018, by and among Spark Energy, Inc., CenStar Energy Corp., Woden Holdings, LLC (fka Verde Energy USA Holdings, LLC), Verde Energy USA, Inc., Thomas FitzGerald, and Anthony Mench.</u>	8-K	2.1	1/16/2018 001-36559
2.7#	<u>Asset Purchase Agreement, dated March 7, 2018, by and between Spark HoldCo, LLC and National Gas & Electric, LLC.</u>	10-K	2.7	3/9/2018 001-36559
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SIGNATURES

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

Spark Energy,
Inc.

May 10, 2018 /s/ Robert
Lane
Robert Lane
Chief
Financial
Officer
(Principal
Financial
Officer and
Principal
Accounting
Officer)