

# SPARK ENERGY, INC.

## **FORM 8-K** (Current report filing)

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K/A**

**(Amendment No. 1)**

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

**Date of Report (Date of earliest event reported): October 5, 2016 (August 23, 2016)**

**Spark Energy, Inc.**

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

**Delaware**  
**(State or Other Jurisdiction**  
**of Incorporation)**

**001-36559**  
**(Commission**  
**File Number)**

**46-5453215**  
**(IRS Employer**  
**Identification Number)**

**12140 Wickchester Lane, Suite 100**  
**Houston, Texas 77079**  
**(Address of Principal Executive Offices)**  
**(Zip Code)**

**(713) 600-2600**  
**(Registrant's Telephone Number, Including Area Code)**

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

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## EXPLANATORY NOTE

On August 23, 2016, Spark Energy, Inc. (the “**Company**”) filed a Current Report on Form 8-K (the “**Initial Report**”) to report, among other things, the closing of its acquisition on August 23, 2016, of all of the outstanding membership interests in Major Energy Services LLC, a New York limited liability company (“**MES**”), Major Energy Electric Services LLC, a New York limited liability company (“**MEES**”), and Respond Power LLC, a New York limited liability company (“**Respond**” and collectively, the “**Major Energy Companies**”).

This Current Report on Form 8-K/A (the “**Amendment**”) amends and supplements the Initial Report to include the financial statements of the Major Energy Companies and the unaudited pro forma financial statements of the Company required by Items 9.01(a) and 9.01(b) of Form 8-K, and to include exhibits under Item 9.01(d) of Form 8-K. No other modifications to the Initial Report are being made by this Amendment.

### Item 9.01 Financial Statements and Exhibits.

#### (a) Financial Statements of Business Acquired.

The audited combined financial statements of the Major Energy Companies as of and for the years ended December 31, 2015 and 2014 are incorporated by reference into this Form 8-K as Exhibit 99.1.

The unaudited combined financial statements of the Major Energy Companies as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 are included in this Form 8-K as Exhibit 99.2.

#### (b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial information as of and for the six months ended June 30, 2016 and for the year ended December 31, 2015 are included in this Form 8-K as Exhibit 99.3.

#### (d) Exhibits.

Exhibit Number	Description
23.1	Consent of Independent Auditor of the Major Energy Companies, PricewaterhouseCoopers, LLP.
99.1	Audited Combined Financial Statements of the Major Energy Companies (incorporated by reference to Exhibit 99.1 to Spark Energy, Inc.’s Current Report on Form 8-K filed on June 15, 2016, File No. 001-36559).
99.2	Unaudited Combined Financial Statements of the Major Energy Companies.
99.3	Unaudited Pro Forma Condensed Financial Information.

## SIGNATURES

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

Dated: October 5, 2016

**SPARK ENERGY, INC.**

By: /s/ Gil Melman

Name: Gil Melman

Title: Vice President, General Counsel and Corporate Secretary

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## EXHIBIT INDEX

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99.3	Unaudited Pro Forma Condensed Financial Information.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-206391) and Form S-8 (No. 333-197738) of Spark Energy, Inc. of our report dated June 10, 2016 relating to the combined financial statements of Major Energy Services, LLC and Associated Entities, which appears in the Current Report on Form 8-K of Spark Energy, Inc. filed on June 15, 2016.

/s/ PricewaterhouseCoopers LLP

Florham Park, New Jersey

October 5, 2016

# **Major Energy Services, LLC and Associated Entities**

## **Condensed Combined Financial Statements**

June 30, 2016

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# Major Energy Services, LLC and Associated Entities

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June 30, 2016

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## **Independent Auditors' Review Report**

To Management of

Major Energy Services, LLC and Associated Entities

### **Report on the Financial Statements**

We have reviewed the accompanying condensed combined balance sheet of Major Energy Services, LLC and Associated Entities (Major Energy Electric Services, LLC and Respond Power, LLC) (collectively the "Company") as of June 30, 2016, and the related condensed combined statements of income, members' equity and cash flows for the three and six-month periods ended June 30, 2016 and 2015. The combined balance sheet of the Company as of December 31, 2015, and the related combined statements of income, members' equity, and cash flows for the year then ended (not presented herein), were audited by other auditors whose report dated June 10, 2016, expressed an unmodified opinion on those combined financial statements.

### ***Management's Responsibility***

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

### ***Auditors' Responsibility***

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

### ***Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information as of and for the three and six-month periods ended June 30, 2016 and 2015, for them to be in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Houston, Texas

October 5, 2016

# Major Energy Services, LLC and Associated Entities

## Condensed Combined Balance Sheets (unaudited)

June 30, 2016 and December 31, 2015

	June 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 5,507,141	\$ 4,906,701
Restricted cash	76,500	76,500
Accounts receivable	21,616,626	24,142,291
Natural gas inventories	85,657	442,666
Deferred advertising costs	1,433,333	1,683,333
Other current assets	7,889,469	6,034,093
Total current assets	36,608,726	37,285,584
Customer acquisition costs, net of accumulated amortization	5,098,622	4,961,029
Deferred advertising costs	306,250	918,750
Fixed assets, net of accumulated depreciation of \$12,732 and \$11,405 at June 30, 2016 and December 31, 2015, respectively	13,796	15,123
Security deposits and other assets	47,540	47,540
Total assets	\$ 42,074,934	\$ 43,228,026
<b>Liabilities and Members' Equity</b>		
Current liabilities		
Accounts payable	\$ 7,652,998	\$ 9,633,148
Accrued liabilities	13,561,066	14,569,092
Loans payable	12,230,219	9,418,852
Total current liabilities	33,444,283	33,621,092
Other liabilities	—	416,668
Total liabilities	33,444,283	34,037,760
Commitments and contingencies (Note 8)		
Members' equity	8,630,651	9,190,266
Total liabilities and members' equity	\$ 42,074,934	\$ 43,228,026

The accompanying notes are an integral part of these condensed combined financial statements.

**Major Energy Services, LLC and Associated Entities**  
**Condensed Combined Statements of Income (unaudited)**  
**Three and Six Months Ended June 30, 2016 and 2015**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Sale of natural gas and electricity	\$ 38,343,683	\$ 39,405,029	\$ 89,487,820	\$ 102,721,085
Cost of natural gas and electricity	29,445,626	31,318,219	66,344,503	76,893,937
Operating expenses	9,787,202	6,199,620	17,480,451	13,824,167
Total operating profit (loss)	(889,145)	1,887,190	5,662,866	12,002,981
Interest income (expense)				
Interest income	4,132	8,509	14,651	17,145
Interest expense	(143,794)	(105,653)	(266,511)	(255,939)
Total interest expense, net	(139,662)	(97,144)	(251,860)	(238,794)
Income (loss) before income taxes	(1,028,807)	1,790,046	5,411,006	11,764,187
Income taxes	6,433	—	29,633	43,600
Net income (loss)	\$ (1,035,240)	\$ 1,790,046	\$ 5,381,373	\$ 11,720,587

The accompanying notes are an integral part of these condensed combined financial statements.

# Major Energy Services, LLC and Associated Entities

## Condensed Combined Statements of Members' Equity (unaudited)

Six Months Ended June 30, 2016

	Members'	Retained	Total
	Units	Earnings	Members'
			Equity
<b>Balance at December 31, 2015</b>	\$ 1,359,114	\$ 7,831,152	\$ 9,190,266
Members' distributions	—	(5,922,738)	(5,922,738)
Preferred guaranteed member payments	—	(18,250)	(18,250)
Net income	—	5,381,373	5,381,373
<b>Balance at June 30, 2016</b>	<u>\$ 1,359,114</u>	<u>\$ 7,271,537</u>	<u>\$ 8,630,651</u>

The accompanying notes are an integral part of these condensed combined financial statements.

# Major Energy Services, LLC and Associated Entities

## Condensed Combined Statements of Cash Flows (unaudited)

Six Months Ended June 30, 2016 and 2015

	Six Months Ended June 30,	
	2016	2015
<b>Cash flows from operating activities</b>		
Net income	\$ 5,381,373	\$ 11,720,587
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,002,752	5,573,741
Changes in assets and liabilities		
Accounts receivable	2,525,665	6,704,563
Natural gas inventories	357,009	533,560
Other current assets	(1,855,376)	(1,531,043)
Customer acquisition costs	(4,276,519)	(4,068,851)
Accounts payable	(1,980,149)	(1,176,634)
Accrued liabilities	(1,008,026)	(1,097,160)
Other liabilities	(416,668)	—
Net cash provided by operating activities	3,730,061	16,658,763
<b>Cash flows from financing activities</b>		
Net borrowings on loans payable (1)	2,811,367	(4,318,652)
Members' distributions	(5,922,738)	(10,275,014)
Preferred guaranteed member payments	(18,250)	(36,500)
Net cash (used in) financing activities	(3,129,621)	(14,630,166)
Net increase in cash and cash equivalents	600,440	2,028,597
<b>Cash and cash equivalents</b>		
Beginning of period	4,906,701	2,968,778
End of period	\$ 5,507,141	\$ 4,997,375
<b>Cash paid during the period</b>		
Interest	\$ 266,034	\$ 284,281
Income taxes	91,433	46,346

### Noncash supplemental disclosure

Collateral posting	\$	—	\$	1,500,000
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(1) Net borrowings amount for the six month periods ending June 30, 2016 and June 30, 2015 include \$62,759,560 and \$77,150,087, respectively of additions related to the conversion of trade payable unpaid balances for energy and ancillary purchases into a loan as per the agreement with the creditor.

The accompanying notes are an integral part of these condensed combined financial statements.

# Major Energy Services, LLC and Associated Entities

## Notes to Condensed Combined Financial Statements (unaudited)

### 1. Organization and Nature of Business

The financial position and results of operations of Major Energy Services, LLC ("MES"), Major Energy Electric Services, LLC ("MEES") and Respond Power, LLC ("Respond"), (collectively, the "Companies") are presented on a combined basis in accordance with the principles of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, Consolidation. MES, MEES and Respond are related through common ownership and control.

MES was organized as a New York LLC in 2005. MES is engaged in the marketing and supply of natural gas. MES began serving customers in 2007 and, during 2016 and 2015, operated in Maryland, New Jersey, New York and Pennsylvania.

MEES was organized as a New York LLC in 2007. MEES is engaged in the marketing and supply of electricity. MEES began serving customers in 2010 and, during 2016 and 2015, operated in Connecticut, Illinois, Massachusetts, Maryland and New York.

Respond was organized as a New York LLC in 2008. Respond is engaged in the marketing and supply of electricity. Respond began serving customers in 2010 and, during 2016 and 2015, operated in New Jersey and Pennsylvania.

The Companies operate in the highly regulated natural gas and electricity retail sales industry and comply with the legislation and regulations in these state jurisdictions in order to maintain licensed status and to continue operations. Licensing requirements vary by state, but generally involve regular, standardized reporting in order to maintain a license in good standing with the state commission responsible for regulating retail electricity and gas suppliers.

The transportation and sale for resale of natural gas in interstate commerce are regulated by agencies of the U.S. federal government, primarily the Federal Energy Regulatory Commission ("FERC") under the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978 and regulations issued under those statutes. Since 1985, FERC has endeavored to make natural gas transportation more accessible to natural gas buyers and sellers on an open and non-discriminatory basis. FERC's orders do not attempt to directly regulate natural gas retail sales. As a shipper of natural gas on interstate pipelines, the Companies are subject to those interstate pipelines tariff requirements and FERC regulations and policies applicable to shippers.

The Companies marketing efforts to consumers, including but not limited to telemarketing, door-to-door sales, direct mail and online marketing, are subject to consumer protection regulation including state deceptive trade practices acts, Federal Trade Commission ("FTC") marketing standards, and state utility commission rules governing customer solicitations and enrollments, among others.

In April 2016, all of the outstanding membership interests in the Companies were acquired by National Gas and Electric, LLC ("NGE"). In consideration of the purchase, NGE agreed to pay a purchase price of \$45,000,000, less a litigation credit of \$5,000,000, for a net sum of \$40,000,000 at closing, with additional amounts of up to \$35,000,000 payable through 2018 assuming certain performance targets are met. The purchase price was further adjusted for certain escrow as well as working capital considerations.

### 2. Significant Accounting Policies

#### Principles of Combination and Consolidation and Combined Statements of Income

The accompanying interim unaudited condensed combined financial statements include the accounts of Major Energy Services, LLC, Major Energy Electric Services, LLC and Respond Power, LLC, which are separate entities with common ownership. These entities are managed and operated as if they were a single entity, and therefore management has elected to present their statements on a combined basis. All intercompany balances have been eliminated upon combination.

### Basis of Presentation

The accounting and reporting policies of the Companies conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The condensed combined balance sheet as of December 31, 2015 was derived from the audited financial statements for the year ended December 31, 2015, but does not include all disclosures required by U.S. GAAP. This information should be read in conjunction with our combined financial statements and notes contained in our audited financial statements for the year ended December 31, 2015.

### Use of Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the interim financial statements. Similarly, estimates and assumptions are required for the reporting of revenues and expenses. Actual results could differ from estimates. The information furnished herein reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the condensed combined financial statements. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results which may be expected for the full year or for any interim period.

### Transactions with Related Parties

Refer to Note 7 to these condensed combined financial statements for additional information regarding related party transactions.

### 3. Accounts Receivable

Accounts receivable is summarized in the following table:

	June 30, 2016	December 31, 2015
Billed customer accounts receivable	\$ 13,958,818	\$ 14,638,504
Unbilled customer accounts receivable	7,618,892	9,219,955
Budget billing receivable	—	195,864
Imbalance and other settlements	38,916	87,968
Total accounts receivable	\$ 21,616,626	\$ 24,142,291

Billed customer accounts receivable represents uncollected revenues that have been billed on the Companies' behalf by the local distribution company ("LDC"). Unbilled customer accounts receivable represent revenues associated with natural gas or electricity consumed but not yet billed to customers under the LDCs monthly cycle billing method.

The Companies have limited credit risk as the LDCs guarantee billed and unbilled customer accounts receivable. As of June 30, 2016 and December 31, 2015, 100% and 99%, respectively of the Companies' billed and unbilled customer accounts receivable were with LDCs with an investment grade credit rating.

Imbalance settlements represent differences between the natural gas delivered to LDCs for consumption by the Companies' customers and actual usage by the Companies' customers. Other settlements include payments for gas supplied by the LDCs for winter usage as well as other miscellaneous charges. Such settlements are expected to be included in cash to/from the LDCs in accordance with contractual payment arrangements.

Budget billing receivable represents the amounts that customer's usages have exceeded the amount they have been billed under their budget billed plan.

#### 4. Customer Acquisition Costs

Customer acquisition costs and related accumulated amortization are summarized in the following table:

	June 30, 2016	December 31, 2015
Customer acquisition costs	\$ 10,768,670	\$ 12,872,228
Accumulated amortization	(5,670,048)	(7,911,199)
	<u>\$ 5,098,622</u>	<u>\$ 4,961,029</u>

Customer acquisition costs are costs paid to outside firms for door-to-door marketing and telemarketing services. The Companies pay a fee per account enrolled by a third party and retained for at least 15 days. The Companies amortize customer acquisition costs over the estimated useful lives of the customer relationships, which was estimated to be 16 months for the six months ended June 30, 2016, for gas and electricity, based on current period usage divided by total usage during the estimated lives. After customer acquisition costs are fully amortized, the gross costs and related amortization are removed from the accounts even if the amounts relate to current customers. Amortization expense relating to capitalized customer acquisition costs were \$1,841,006 and \$2,074,919 for the three months ended June 30, 2016 and 2015, respectively. Amortization expense relating to capitalized customer acquisition costs were \$4,138,926 and \$4,711,511 for the six months ended June 30, 2016 and 2015, respectively.

During the three months ended June 30, 2016 and 2015, the Companies wrote off fully amortized costs and amortization of \$3,647,847 and \$3,547,570, respectively. During the six months ended June 30, 2016 and 2015, the Companies wrote off fully amortized costs and amortization of \$6,380,077 and \$7,254,965, respectively.

#### 5. Accrued Liabilities

Accrued liabilities are summarized in the following table:

	June 30, 2016	December 31, 2015
Sales and gross receipts tax payable	\$ 1,220,847	\$ 1,109,588
Advertising costs payable	1,250,000	1,733,332
Payroll and payroll taxes	230,301	69,392
Payable to defined contribution plan	230,000	480,000
Budget billing overcharge	22,164	43,115
Legal settlements	4,093,947	4,633,027
Accrued renewable energy credits	5,689,108	5,304,590
Other accrued liabilities	824,699	1,196,048
Total accrued liabilities	<u>\$ 13,561,066</u>	<u>\$ 14,569,092</u>

#### 6. Loans Payable

##### Major Energy Services, LLC

MES is a borrower under a revolving credit facility with a company that is both a supplier of natural gas and creditor for MES. In addition to having a lien on MES's receivables, the creditor charges \$0.125/MMBtu of natural gas supplied in return for its' short-term financing of MES's purchases of natural gas.

In March 2014, the agreement that governs the revolving credit facility was amended and restated to, among other things, set the borrowing limit at \$15,000,000 of revolving credit as well as provide up to \$10,000,000 of credit support in the form of payment guarantees, or letters of credit. The amended and restated agreement also effectuated the primary term of the agreement to March 31, 2017 with subsequent automatic one year extensions unless either party notifies the other 180 days prior to the expiration of the agreement that that party wishes to terminate the agreement at the expiration of the term.



As part of the amended and restated agreement, the unpaid balance on natural gas purchases are converted to a loan on the 25th of the first month following purchase. These loans are subsequently payable on the 25th of the second month following purchase. As of June 30, 2016 and December 31, 2015, interest was accrued on the loan at an annualized rate of the floating 90-day LIBOR rate + 300 basis points or 3.69% or 3.41%, respectively. As of June 30, 2016 and December 31, 2015, the balances of these loans were \$388,517 and \$763,313, respectively.

Due to capacity constraints in the winter, some of the LDC territories in which MES operates require MES to buy natural gas and store it in the summer for the subsequent winter use. Per the master agreement, the creditor finances these purchases and holds a security interest in the stored gas as collateral. As of June 30, 2016, the applicable margin for these storage loans was 90-day LIBOR rate + 300 basis points, or 3.69% per annum. The balance of these storage loans as of June 30, 2016 was \$155,130. As of December 31, 2015, the applicable margin for these storage loans was 90-day LIBOR rate + 300 basis points, or 3.41% per annum. The balance of these storage loans as of December 31, 2015 was \$952,090.

#### **Major Energy Electric Services, LLC**

MEES is a borrower under a revolving credit facility with the same company that is the creditor for MES. In addition to having a lien on MEES's receivables, the creditor charges \$1.00/MWh of electricity financed in return for its short-term financing of MEES's purchases of electricity.

In March 2014, the agreement that governs the revolving credit facility was amended to, amongst other things, set the borrowing limit at \$20,000,000 of revolving credit, extend the primary term to March 31, 2017 with subsequent one year extensions, detail collateral requirements for fixed price purchases as well as decrease the per unit charge to MEES. The subsequent one year extensions are evergreen unless either party notifies the other 180 days prior to the expiration of the agreement that that party wishes to terminate the agreement at the expiration of the term.

As part of the operating agreement, the unpaid balance on electricity purchases are converted to a loan on the day payment is made by creditor for electricity purchased by MEES. These loans are subsequently payable on the 25th of the second month following purchase. As of June 30, 2016 and December 31, 2015, interest was accrued on the loan at an annualized rate of the floating 90-day LIBOR rate + 300 basis points or 3.69% and 3.41%, respectively. As of June 30, 2016 and December 31, 2015, the balances of these loans were \$4,583,537 and \$3,779,274, respectively.

The creditor has also posted collateral on the Company's behalf with an ISO governing one of the territories that the Company operates in. At June 30, 2016 and December 31, 2015, the balance outstanding on this collateral totaled \$2,664,000 for each of these dates. This amount is included in other current assets and loan payable on the condensed combined balance sheets. In accordance with the terms of the agreement that governs the revolving credit facility, there is no interest charged on such collateral postings.

#### **Respond Power, LLC**

Respond is a borrower under a revolving credit facility with the same company that is the creditor for MES. In addition to having a lien on Respond's receivables, the creditor charges \$1.00/MWh of electricity financed in return for its short-term financing of Respond's purchases of electricity.

In March 2014, Respond amended the agreement with a creditor to run through March 31, 2017 with subsequent one year extensions. The subsequent one year extensions are evergreen unless either party notifies the other 180 days prior to the expiration of the agreement that that party wishes to terminate the agreement at the expiration of the term. The agreement also sets the borrowing limit at \$20,000,000 of revolving credit as well as detailed per unit fees to be charged, collateral requirements for fixed price purchases and details the approved territories for Respond to service.

As part of the operating agreement, the unpaid balance on electricity purchases are converted to a loan on the day payment is made by creditor for electricity. These loans are subsequently payable on the 25th of the second month following purchase. As of June 30, 2016, interest was accrued on the loan at an annualized rate of the floating 90-day LIBOR rate + 300 basis points or 3.69%. As of June 30, 2016, the balance of the loan was \$4,439,035. As of December 31, 2015, interest was accrued on the loan at an annualized rate of the floating 90-day LIBOR rate + 300 basis points or 3.41%. As of December 31, 2015, the balance of the loan was \$1,260,174.

For all debt presented in these financial statements, the fair value of the debt approximates its carrying value.

## **7. Related Party Transactions**

### **Member Transactions**

Certain interest holders are considered to be Managing Members who, as a group, have the rights required for or appropriate to the management of the business. Additionally, certain members are considered to be Class A members. Class A members have voting rights proportionate to their member interest over certain specific, significant capital transactions, including redemptions and transfers of member interests and dissolution of the Companies. Certain Class A members also receive an annual 10% cumulative preferred guaranteed payment on their remaining capital investment of \$730,000 as well as a preferred return of this amount in addition to their percentage ownership interest in the event of a sale of the Companies meeting certain conditions. Prior to the sale of the membership interest, the Companies made preferred guaranteed member payments to Class A members of \$18,250 and \$36,500 during the six months ended June 30, 2016 and 2015, respectively. In addition to the \$18,250 of preferred guaranteed member payments as well as the \$872,738 assumption of loan advance, there was \$5,000,000 disbursed to NGE post-closing. Lastly, there was \$50,000 of disbursements for the members pre-closing. With the sale of the membership interests in April 2016, these member transactions ceased.

## **8. Commitments and Contingencies**

### **Marketing Services**

The Companies use an entity for its door-to-door marketing services. For the three months ended June 30, 2016 and 2015, the related marketing costs charged to the Companies by this marketing entity were \$1,038,256 and \$609,545, respectively. For the six months ended June 30, 2016 and 2015, the related marketing costs charged to the Companies by this marketing entity were \$1,810,226 and \$1,487,557, respectively. These costs are included in customer acquisition costs on the condensed combined balance sheets. MES extended a loan for certain nonrecurring costs to this entity, the balance of which owed to MES as of December 31, 2015 was \$802,000. In conjunction with the sale of the membership interests in April 2016, the loan balance of \$802,000 along with accrued interest of \$70,738 was taken over by the selling members of the Company. The loan accrued interest at an annualized rate of the floating 90-day LIBOR + 300 basis points which was 3.69% and 3.41% as of June 30, 2016 and December 31, 2015, respectively. Total interest accrued during the six months ended June 30, 2016 and 2015 was \$7,948 and \$13,852, respectively.

### **Litigation**

From time to time, the Companies are a party to claims and legal proceedings that arise in the ordinary course of business, including investigations of marketing practices, product pricing and billing practices by various governmental or other regulatory agencies. Other than proceedings discussed below, the Companies do not believe that they are a party to any litigation, claims or proceedings that will have a material impact on the Company's condensed combined 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.

In 2016, the Companies settled with the Illinois Commerce Commission with respect to allegations of misleading marketing practices, for \$239,676. The amount was formerly accrued for the condensed combined balance sheet at December 31, 2015.

In the three and six months ended June 30, 2016, the Companies settled with the Maryland Public Service Commission with respect to allegations of misleading marketing practices, for \$300,000. The settlement also requires for the Companies to report monthly to the Maryland Public Service Commission on number of customer complaints. The \$300,000 is included in accrued expenses in the condensed combined balance sheet at December 31, 2015 and paid in April 2016.

In the three and six months ended June 30, 2016, the Companies agreed to settle with the Pennsylvania Public Utility Commission/Bureau of Investigation and Enforcement with respect to allegations of misleading marketing practices, for \$4,093,351. The proposed settlement also includes quarterly reporting on number of complaints, as well as allowing for only fixed-rate products to be sold. The \$4,093,351 is included in accrued expenses in the condensed combined balance sheets at June 30, 2016 and December 31, 2015.

The Companies do not have physical custody or control over any facilities used to transport the natural gas and electricity to its customers. Title to the natural gas sold to MES's customers is passed at the same point at which MES accepts title from its natural gas suppliers. While there can be no assurance regarding claims and litigation, management does not believe that the Companies have significant exposure to legal claims or other liabilities associated with environmental concerns.

#### **Physical Commodity Purchase Commitments**

MES has forward physical contracts to acquire physical quantities of natural gas in specified future periods. These contracts allow MES to acquire natural gas on a forward market fixed-price basis, enabling it to establish a fixed and determinable cost for a significant portion of its natural gas needs during the specified periods. MES's practice is to enter into contracts that are less than its total expected future needs for natural gas. It currently expects to continue such forward purchases in future periods.

In the three and six months ended June 30, 2016 and 2015, MES designated these contracts as normal purchases of natural gas. As such, there is no recognition of any change in fair value of these contracts. As of June 30, 2016, MES had forward contracts to purchase a total of approximately 2,058,216 DTHm of natural gas at a total purchase price of approximately \$5,630,325. As of December 31, 2015, MES had forward contracts to purchase a total of approximately 571,048 DTHm of natural gas at a total purchase price of approximately \$1,691,578. MEES and Respond ("MEESRP") have forward contracts to acquire quantities of electricity in specified future periods. These contracts allow MEESRP to establish a fixed and determinable cost for a portion of its electricity needs during the specified periods. MEESRP's practice is to enter into such contracts when they have a related amount of demand from its customers for fixed pricing over the contract period.

MEESRP designates these contracts as normal purchases of electricity. As such, there is no recognition of any change in fair value of these contracts. As of June 30, 2016, MEESRP had forward contracts to purchase a total of approximately 1,064,032 MWh of electricity at a total purchase price of approximately \$40,200,916. As of December 31, 2015, MEESRP had forward contracts to purchase a total of approximately 923,823 MWh of electricity at a total purchase price of approximately \$39,904,689.

#### **9. Subsequent Events**

The Companies have evaluated subsequent events through October 5, 2016, which is the date the financial statements were available for issuance. On August 23, 2016, NG&E transferred all of the outstanding membership interests in the Companies to Spark Energy, Inc.

## Unaudited Pro Forma Condensed Combined Financial Information

On May 3, 2016, Spark HoldCo and Spark Energy, Inc. (collectively, “Spark”, except where the context indicates a reference only to Spark Energy, Inc.) entered into a Membership Interest Purchase Agreement (the “Major Energy Purchase Agreement”), with Retailco, LLC and National Gas & Electric, LLC (“NG&E”), pursuant to which Spark agreed to purchase, and NG&E agreed to sell, all of the outstanding membership interests in Major Energy Services LLC, a New York limited liability company, Major Energy Electric Services LLC, a New York limited liability company, and Respond Power LLC, a New York limited liability company (collectively, the “Major Energy Companies”). NG&E is owned by W. Keith Maxwell III, our Chairman of the Board, founder and majority shareholder. The closing of the acquisition occurred on August 23, 2016.

The unaudited pro forma financial information considers the aggregation of financial statement impacts for the following two transactions, collectively referred to in this document as “the acquisition transactions”:

- The acquisition of the Major Energy Companies by NG&E, which closed on April 15, 2016, was accounted for as a business combination using the acquisition method of accounting. NG&E paid \$40 million in cash and assumed liabilities for litigation settlements of \$5 million at closing of the acquisition. The purchase also included \$15 million in installment consideration subject to achievement of certain performance targets and up to an estimated \$20 million in earnouts over the next 33 months subject to achievement of certain performance targets.
- The acquisition of the Major Energy Companies by Spark from NG&E, which is an entity under common control with Spark, will be accounted for as a transfer of equity interests of entities under common control using the pooling of interests method. The transaction was financed through the issuance of two million shares of Class B common stock (and a corresponding number of Spark HoldCo units) at the closing and included Spark assuming the \$5 million litigation settlements and the installment consideration and earnouts described above in addition to a potential earnout of an additional 200,000 Class B common shares depending on achievement of performance targets.

This unaudited pro forma condensed combined financial information reflects Spark's acquisition and related events taking into consideration the above accounting treatments, and they apply the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information based on currently available information. Further, these adjustments could materially change as both the determination of the purchase price and the allocation of the purchase price accounting for the acquisition have not been finalized. The pro forma financial information includes certain assumptions deemed reasonable by management at the time of preparation. There can be no assurance that these assumptions and the pro forma financial information will be indicative of actual combined performance or final purchase price accounting by Spark. Subsequent to the acquisition, Spark will control all of the business of the Major Energy Companies and as a result will consolidate the results, including a recast of operating results from the date that NG&E acquired the Major Energy Companies.

The unaudited pro forma condensed combined balance sheet as of June 30, 2016 reflects the acquisition and related events as if they had been consummated on June 30, 2016. The unaudited pro forma condensed combined statements of income for the year ended December 31, 2015 and the six months ended June 30, 2016, reflect the acquisition and related events as if they had been consummated on January 1, 2015.

The historical financial information has been adjusted to give pro forma effect to events that are directly attributable to the acquisition transactions, are expected to have an ongoing effect on our consolidated results and are factually supportable. Pro forma adjustments related to the unaudited condensed combined balance sheet give effect to events that are directly attributable to the acquisition transactions and are factually supportable regardless of whether they have a ongoing effect or are non-recurring. Total fees and costs of the acquisition include legal, accounting and other fees and costs that have or will be expensed. The charges directly attributable to the acquisition transactions represent non-recurring costs and were therefore excluded from the unaudited pro forma financial information. The unaudited pro forma financial information does not reflect the cost of integration activities or benefits from the acquisitions and synergies that may be derived, both of which may have a material effect on the consolidated results of operations in periods following completion of the acquisition by Spark. Our unaudited pro forma condensed combined financial information and explanatory notes present how our financial statements may have appeared had the acquisition occurred on the dates noted above.

The unaudited pro forma condensed combined financial statements and related notes are presented for informational purposes only and do not purport to represent the financial position or results of operations as if the transactions had occurred on the dates discussed above. They do not include any adjustments for any other pending or contemplated acquisitions of the Company except as described herein. They also do not project or forecast the consolidated financial positions or results of operations for any future date or period. The unaudited financial information set forth herein is preliminary and subject to adjustments and modifications. The audited financial statements and related notes are to be included in Spark's Annual Report on Form 10-K for the year ending December 31, 2016. Adjustments and modifications to the financial statements may be identified during the course of this audit work, which could result in significant differences from this preliminary unaudited

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financial information. The unaudited pro forma condensed combined financial statements and related notes should be read together with:

- the separate historical audited financial statements of Spark as of and for the year ended December 31, 2015 included in Spark's Annual Report on Form 10-K for the year ended December 31, 2015;
  - the separate historical unaudited financial statements of Spark as of and for the six months ended June 30, 2016 included in Spark's Quarterly Report on Form 10-Q for the six months ended June 30, 2016;
  - the separate historical audited combined financial statements of the Major Energy Companies as of and for the year ended December 31, 2015, which are included as Exhibit 99.1 on Form 8-K filed on June 15, 2016; and
  - the separate historical unaudited combined financial statements of the Major Energy Companies as of and for the six months ended June 30, 2016, which are included as Exhibit 99.2 to this current Report on Form 8-K.
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**Unaudited Pro Forma Condensed Combined Balance Sheet**  
**As of June 30, 2016**

(In thousands of U.S. Dollars)

	Historical Spark	Major Energy Companies	Reclassification	Acquisition Adjustments	Spark Pro Forma
<b>Assets</b>					
Currents assets:					
Cash and cash equivalents	\$ 7,262	\$ 5,507	\$ —	\$ —	\$ 12,769
Restricted cash	—	77	—	—	77
Accounts receivable	42,677	21,617	—	—	64,294
Accounts receivable—affiliates	1,009	—	—	—	1,009
Inventory	1,827	—	86 (g)	—	1,913
Natural gas inventories	—	86	(86) (g)	—	—
Fair value of derivative assets	2,705	—	—	—	2,705
Customer acquisition costs, net	11,857	—	—	—	11,857
Deferred advertising costs, current	—	1,433	—	(1,433) (a)	—
Customer relationships, net	4,964	—	—	7,047 (a1)	12,011
Prepaid assets	1,699	—	—	—	1,699
Deposits	3,565	—	—	—	3,565
Other current assets	4,763	7,889	—	—	12,652
Total current assets	82,328	36,609	—	5,614	124,551
Property and equipment, net	5,035	—	—	14 (a2)	5,049
Fixed asset, net of accumulated depreciation	—	14	—	(14) (a2)	—
Fair value of derivative assets	439	—	—	938 (f)	1,377
Customer acquisition costs, net	2,436	—	—	—	2,436
Customer acquisition costs, net of accumulated amortization	—	5,099	—	(5,099) (a)	—
Deferred advertising costs	—	306	—	(306) (a)	—
Customer relationships, net	4,418	—	—	14,095 (a1)	18,513
Deferred tax assets	52,460	—	—	— (h)	52,460
Goodwill	18,379	—	—	41,262 (a4)	59,641
Other assets	2,567	—	47 (g)	5,418 (a3),(a)	8,032
Security deposits and other assets	—	47	(47) (g)	—	—
Total assets	168,062	42,075	—	61,922	272,059
<b>Liabilities and Stockholder's Equity</b>					
Current liabilities:					
Accounts payable	22,257	7,653	—	—	29,910
Accounts payable—affiliates	1,990	—	—	—	1,990
Accrued liabilities	14,368	13,561	—	367 (b)	28,296
Loans payable	—	12,230 (d)	—	—	12,230
Fair value of derivative liabilities	1,929	—	—	362 (f)	2,291
Current portion of Senior Credit Facility	5,306	—	—	15,914 (i)	21,220
Current deferred tax liability	1,407	—	—	—	1,407
Other current liabilities	2,308	—	—	6,420 (c)	8,728
Total current liabilities	49,565	33,444	—	23,063	106,072
Long-term liabilities:					
Fair value of derivative liabilities	458	—	—	—	458
Long-term payable pursuant to tax receivable agreement - affiliates	46,768	—	—	—	46,768
Long-term portion of Senior Credit Facility	11,939	—	—	—	11,939
Non-current deferred tax liability	—	—	—	— (h)	—
Convertible subordinated notes to affiliates	6,502	—	—	—	6,502
Other long-term liabilities	—	—	—	7,490 (c)	7,490
Total liabilities	115,232	33,444	—	30,553	179,229
Stockholders' equity:					

Common stock Class A	65	—	—	—	65
Common stock Class B	76	—	—	20 (e)	96
Member's equity	—	8,631	—	(8,631) (a)	—
Additional paid-in capital	21,997	—	—	—	21,997
Accumulated other comprehensive loss	(28)	—	—	—	(28)
Retained earnings	1,491	—	—	—	1,491
Total stockholders' equity	23,601	8,631	—	(8,611)	23,621
Non-controlling interest in Spark HoldCo, LLC	29,229	—	—	39,980 (e)	69,209
Total equity	52,830	8,631	—	31,369	92,830
Total liabilities and equity	<u>\$ 168,062</u>	<u>\$ 42,075</u>	<u>\$ —</u>	<u>\$ 61,922</u>	<u>\$ 272,059</u>

Notes to unaudited pro forma condensed combined balance sheet

- (a) To remove the Major Energy Companies' equity, capitalized advertising costs, capitalized customer acquisition costs and non-current other assets as well as to record the Purchase Price Allocation for identifiable assets of the acquisition as listed in items 1 through 4 below.
  - 1 To record the fair value of Customer Intangibles, which includes: -- The asset corresponding to the MTM liability value in Note (f), which is not an increase to the purchase price but rather an assumption of a liability valued at fair value. -- The value of customer contracts and non-compete agreements.
  - 2 To record change in Property and Equipment to fair value the assets.
  - 3 To record the fair value of Trademarks acquired of \$5.5 million.
  - 4 To record the assembled workforce and remaining assets to Goodwill.
- (b) To record the remainder of the \$5.0 million contingency assumed in the acquisition transactions in calculating the consideration transferred. The contingent liability represents future litigation settlements of which \$4.6 million was recorded on the Major Energy Companies' financial statements as of June 30, 2016.
- (c) To record the estimated present value of future earnout and installment payments, of which \$6.4 million will be due within one year after the acquisition by NG&E with the remaining \$7.5 million recorded as a long-term liability.
- (d) To note that the current loans payable on the Major Energy Companies' balance sheet represents the amount owed to the sleeve contract provider, which will stay in place upon acquisition by Spark.
- (e) To record the equity issuance of two million Class B common shares at \$20 per share as initial purchase consideration by Spark, which also equals the cash consideration transferred upon closing of the acquisition by NG&E on April 15, 2016.
- (f) To record the fair value derivative asset and liability position of derivatives acquired in the acquisition by NG&E, valued as of June 30, 2016.
- (g) Represents the reclassification of line items of the Major Energy Companies' financials to the comparable Spark financial statement line item.
- (h) The initial purchase of membership interests in the Major Energy Companies will be treated as an asset purchase for tax purposes. Management has assumed that book basis will be substantially equal to tax basis. Further, management gave no consideration to the effect of the acquisition transactions on the deferred tax assets that result from Spark's tax receivable agreement.
- (i) To record the borrowings Spark will incur against its existing Senior Credit Facility line to purchase working capital.

In addition to the notes above, please see the table below for purchase consideration transferred and the forecasted allocation of the purchase price (which is not yet complete) upon the acquisition of the Major Energy Companies by NG&E:

Cash	\$	13,614
Net working capital, net of cash acquired		(436)
Regulatory liability assumed		(5,000)
Property and equipment		14
Intangible assets - customer relationships		21,142
Intangible assets - trademarks		5,465
Goodwill		41,262
Fair value of derivative liabilities		(7,259)
Total purchase price, including working capital		68,802
Earnouts and contingent payments		(13,910)
Total cash purchase price, including working capital		54,892
Cash borrowed to acquire working capital		(14,892)
Total cash purchase price, excluding working capital	\$	40,000

The total consideration to be given upon closing of the acquisition by Spark to NG&E will be two million Class B common shares with a total value of \$40 million, which equals the total cash consideration transferred to the Major Energy Companies by NG&E upon acquisition.



**Unaudited Pro Forma Condensed Combined Statement of Operations**  
**For the Year Ended December 31, 2015**

(In thousands of U.S. Dollars, except per share data)

	Historical Spark	Major Energy Companies	Reclassification	Acquisition Adjustments	Spark Pro Forma
Revenues:					—
Retail revenues	\$ 356,659	\$ —	\$ 189,228 (e)	\$ —	\$ 545,887
Sale of natural gas and electricity	—	189,228	(189,228) (e)	—	—
Net asset optimization	1,494	—	—	—	1,494
Total revenues	358,153	189,228	—	—	547,381
Operating expenses:					
Retail cost of revenues	241,188	—	144,154 (e)	(4,111) (a)	381,231
Cost of natural gas and electricity	—	144,154	(144,154) (e)	—	—
General and administrative	61,682	—	22,894 (e)	3,200 (b)	87,776
Depreciation and amortization	25,378	—	9,121 (e)	8,477 (c)	42,976
Operating expenses	—	32,015	(32,015) (e)	—	—
Total operating expenses	328,248	176,169	—	7,566	511,983
Operating income (loss)	29,905	13,059	—	(7,566)	35,398
Other (expense)/income:					
Interest expense	(2,280)	(468)	—	—	(2,748)
Interest and other income	324	35	—	—	359
Total other expenses	(1,956)	(433)	—	—	(2,389)
Income (loss) before income tax expense	27,949	12,626	—	(7,566)	33,009
Income tax expense	1,974	90	—	373 (d)	2,437
Net income (loss)	25,975	12,536	—	(7,939)	30,572
Less: Net income (loss) attributable to non-controlling interests	22,110	—	—	(6,401) (g)	15,709
Net income (loss) attributable to Spark Energy, Inc. stockholders	3,865	12,536	—	(1,538)	14,863
Other comprehensive income (loss):					—
Deferred gain (loss) from cash flow hedges	—	—	—	—	—
Reclassification of deferred gain (loss) from cash flow hedges into net income	—	—	—	—	—
Comprehensive income (loss)	\$ 25,975	\$ 12,536	\$ —	\$ (7,939)	\$ 30,572
Net income attributable to Spark Energy, Inc. per share of Class A common stock					
Basic	\$ 1.26	N/A			\$ 4.85
Diluted	\$ 1.06	N/A			\$ 1.27
Weighted average shares of Class A common stock					
Basic	3,064	N/A		(f)	3,064
Diluted	3,327	N/A		(f)	16,078

Notes to unaudited pro forma condensed combined statement of operations for the year ended December 31, 2015

- (a) Represents the mark to market change of derivatives during the period presented for the Major Energy Companies, who historically took the normal purchase normal sale exemption and did not have its mark to market impacts on the statement of operations.
  - (b) Represents expenses incurred as a result of the acquisition, including payments of bonuses and legal fees that arose in connection with the acquisition by NG&E.
  - (c) Represents depreciation and amortization on property, plant and equipment and amortizable intangible assets, respectively, recorded in connection with the acquisition transactions. Note that the following useful lives were utilized for calculating depreciation and amortization on a straight-line basis: 3 years for Customer Intangibles, 20 years for Trademarks, and 3 years for Property, Plant and Equipment.
  - (d) To record the provision for income tax expense. The pro forma adjustment to income tax expense differs from the statutory rate primarily based on income attributable to the noncontrolling interest for the period ended December 31, 2015. Prior to the acquisition by Spark, the Major Energy Companies were treated as partnerships for federal and state income tax purposes and therefore did not have a provision for income taxes. The pro forma combined income tax expense does not reflect the amount that would have resulted had Spark and the Major Energy Companies filed a consolidated income tax return during the period presented. The effective tax rate of the combined company could be significantly different depending on post-acquisition activities, including changes in noncontrolling interest, geographical mix of income and effects of the tax receivable agreement that were not considered in these pro forma statements.
  - (e) Represents the reclassification of line items of the Major Energy Companies' financials to the comparable Spark financial statement line item.
  - (f) To reflect the impact on weighted average shares outstanding used in calculating basic and diluted earnings per share for the issuance of the two million Class B common shares in the Spark acquisition of the Major Energy Companies from NG&E for the year ended December 31, 2015.
  - (g) Represents the split of net income to the non-controlling interest based on the weighted average non-controlling interest ownership during the period presented.
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**Unaudited Pro Forma Condensed Combined Statement of Operations**  
**For the Six Months Ended June 30, 2016**

(In thousands of U.S. Dollars, except per share data)

	Historical Spark	Major Energy Companies	Reclassification	Acquisition Adjustments	Spark Pro Forma
Revenues:					—
Retail revenues	\$ 186,882	\$ —	\$ 89,488 (d)	\$ —	\$ 276,370
Sale of natural gas and electricity	—	89,488	(89,488) (d)	—	—
Net asset optimization	(150)	—	—	—	(150)
Total revenues	186,732	89,488	—	—	276,220
Operating expenses:					
Retail cost of revenues	106,644	—	66,345 (d)	(7,835) (a)	165,154
Cost of natural gas and electricity	—	66,345	(66,345) (d)	—	—
General and administrative	33,580	—	13,340 (d)	—	46,920
Depreciation and amortization	13,033	—	4,140 (d)	3,661 (b)	20,834
Operating expenses	—	17,480	(17,480) (d)	—	—
Total operating expenses	153,257	83,825	—	(4,174)	232,908
Operating income	33,475	5,663	—	4,174	43,312
Other (expense)/income:					
Interest expense	(1,373)	(267)	—	—	(1,640)
Interest and other income	99	15	—	—	114
Total other expenses	(1,274)	(252)	—	—	(1,526)
Income before income tax expense	32,201	5,411	—	4,174	41,786
Income tax expense	5,723	30	—	1,316 (c)	7,069
Net income	26,478	5,381	—	2,858	34,717
Less: Net income attributable to non-controlling interests	19,964	—	—	1,853 (f)	21,817
Net income attributable to Spark Energy, Inc. stockholders	\$ 6,514	\$ 5,381	\$ —	\$ 1,005	\$ 12,900
Other comprehensive loss, net of tax:					
Currency translation loss	\$ (61)	\$ —	\$ —	\$ —	\$ (61)
Other comprehensive loss	(61)	—	—	—	(61)
Comprehensive income	\$ 26,417	\$ 5,381	\$ —	\$ 2,858	\$ 34,656
Less: Comprehensive income attributable to non-controlling interests	19,931	—	—	1,853 (f)	21,784
Comprehensive income attributable to Spark Energy, Inc. stockholders	\$ 6,486	\$ 5,381	\$ —	\$ 1,005	\$ 12,872
Net income attributable to Spark Energy, Inc. per share of Class A common stock					
Basic	\$ 1.33	N/A			\$ 2.63
Diluted	\$ 1.25	N/A			\$ 1.59
Weighted average shares of Class A common stock					
Basic	4,899	N/A		(e)	4,899
Diluted	14,485	N/A		(e)	16,490

Notes to unaudited pro forma condensed combined statement of operations for the six months ended June 30, 2016

- (a) Represents the mark to market change of derivatives during the period presented for the Major Energy Companies, who historically took the normal purchase normal sale exemption and did not have its mark to market impacts on the statement of operations.
- (b) Represents depreciation and amortization on property, plant and equipment and amortizable intangible assets, respectively, recorded in connection with the acquisition transactions. Note that the following useful lives were utilized for calculating depreciation and amortization on a straight-line basis: 3 years for Customer Intangibles, 20 years for Trademarks, and 3 years for Property, Plant and Equipment.
- (c) To record the provision for income tax expense. The pro forma adjustment to income tax expense differs from the statutory rate primarily based on income attributable to the noncontrolling interest for the period ended June 30, 2016. Prior to the acquisition by Spark, the Major Energy Companies were treated as partnerships for federal and state income tax purposes and therefore did not have a provision for income taxes. The pro forma combined income tax expense does not reflect the amount that would have resulted had Spark and the Major Energy Companies filed a consolidated income tax return during the period presented. The effective tax rate of the combined company could be significantly different depending on post-acquisition activities, including changes in noncontrolling interest, geographical mix of income and effects of the tax receivable agreement that were not considered in these pro forma statements.
- (d) Represents the reclassification of line items of the Major Energy Companies' financials to the comparable Spark financial statement line item.
- (e) To reflect the impact on weighted average shares outstanding used in calculating basic and diluted earnings per share for the issuance of the two million Class B common shares in the Spark acquisition of the Major Energy Companies from NG&E for the six months ended June 30, 2016.
- (f) Represents the split of net income to the non-controlling interest based on the weighted average non-controlling interest ownership during the period presented.