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Conference Call Transcript

****MXE - Q2 2007 MXEnergy Earnings Conference Call**

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Jeffrey A. Mayer

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CONFERENCE CALL PARTICIPANTS

Ted Burdick

Camulos - Analyst

Simon Baukh

MacKay Shields, LLC - Analyst

John King

AIG - Analyst

PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Second Quarter 2007 MXEnergy Earnings Conference Call. My name is [Nicole], and I will be your coordinator for today. [OPERATOR INSTRUCTIONS]

I would now like to turn the call over to Miss Robi Artman-Hodge. Please proceed.

Robi Artman-Hodge - *MXenergy Holdings, Inc. - EVP*

Oh, good morning. And thank you, Nicole. I'm Carole R. Artman-Hodge, also known as Robi. And I'm the Executive Vice President of MXEnergy Holdings Inc. Today, we will be reviewing with you results for the three months and six months ended December 31st, 2006.

Before we begin though, I would like to remind you that certain statements made during this conference call, which are not based on historical facts may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events, or developments to differ materially from those expressed or implied by these forward-looking statements.

Such factors include those risks that we described in our annual report for the year ended June 30, 2006. All information is current and as of the date of this call. And the company undertakes no duty to update this information for you.

In addition, we will at the end of the call, take additional questions. Due to SEC disclosure regulations, we will be limited to commenting on information that has already been made available by the company. We will not be able to talk at this point about events occurring after our fiscal quarter ended December 31, 2006, that have not previously been disclosed by the company.

Now, I'll turn the call over to Jeffrey A. Mayer, MXEnergy Holdings, Inc. President and Chief Executive Officer.

Jeffrey A. Mayer - *MXenergy Holdings, Inc. - President, CEO*

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Thank you very much Robi, and good morning everybody. I'm Jeff Mayer, President and CEO of MXEnergy Holdings, Inc. With me today are, Chaitu Parikh, our Vice President and Chief Financial Officer as well as Robi, who just spoke, our Executive Vice President.

Today, we are announcing our results for the three months and six months ended December 31, 2006.

Our second quarter of fiscal year 2007 produced adjusted earnings before interest, tax, depreciation and amortization, what we refer to as our adjusted EBITDA, of \$9.4 million, an increase from the \$7.3 million we experienced during the same period of the prior year.

This increase of \$2.1 million over the same period in the prior year was due primarily to an increase in gross margin earned on customer contracts that were acquired in connection with the Shell Energy Services LLC or SESCO acquisition completed in our first quarter of fiscal year 2007.

Sales for the three-month period ended December 31, 2006, were \$206.9 million, up \$90 million or 77% compared to the same period in the prior year, primarily due to the inclusion during the three-month period of natural gas consumption by the customers acquired from SESCO.

The average selling price per unit including fee revenue increased by \$1.38 to \$11.35 per MMBtu, primarily due to the higher price of natural gas at the time fixed-price customers were renewed or added between the respective periods plus fees associated with certain of the SESCO customers that we acquired.

We sold approximately 18 billion cubic feet of gas in the three months ended December 31, 2006 as compared to approximately 11.4 Bcf in the same period in the prior year. The increased volume is attributed to the natural gas consumption from the customers acquired from SESCO.

It should be noted that though our customer volumes increased overall, our usage per customer decreased over the same period in the prior year as a result of the warmer than normal weather experienced in the Midwest -- in the Mideast -- excuse me, in the Midwestern and the Northeastern United States during the quarter ended December 31, 2006.

As I mentioned in our last call, for the three months ended September 30, 2006, the majority of our revenues are generated during our second and third fiscal quarters, and particularly during the November through March period of every calendar year.

This causes seasonal volatility in our quarterly earnings and cash flows. This year, second quarter heating degree days were approximately 14% lower than for the same period last year in our territories.

As a result, we delivered approximately 1.8 billion cubic feet less volume than we would have sold in what would be deemed to be a normal year if one looked at a normalized weather forecast.

The impact of warmer weather was somewhat offset by strong margins, illustrating the benefits of our diversification strategy in which we diversify among product types, such as fixed and variable contracts, as well as among utility territories.

Our risk management policies continue to be effective in locking in our forward margins and responding to variations in weather-related demands. During the second quarter, our risk oversight committee revised our risk management policies to permit us to take advantage of some of the storage and transportation assets that we have in a way that reduces the cost of our supply without also increasing any price or volume risk.

Our average number of residential customer equivalents, or what we refer to as RCEs and let me note parenthetically, an RCE is equal to 100 MMBtus of annual consumption, or in the case of electricity, ten megawatts of annual consumption, for the three-month period ended December 31, 2006, was approximately 661,500, an increase of 73% or approximately 278,100 RECs over the same period in the prior year, due primarily to the customers acquired in the SESCO acquisition.

From fiscal year 2003 through 2006, we experienced an average annual in-contract customer attrition rate of approximately 23%. Attrition for the three-month period ended December 31, 2006, was 7%, which would yield an annualized attrition rate of 28%.

This increased attrition is less than the attrition rate in the first fiscal quarter of 36%, much of which was experienced in Georgia and Ohio where customers of SESCO, the customers whom we acquired in our acquisition, received mandatory notices of the transfer of their contracts as well as an opportunity to switch at no cost.

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January 2007 results continue to be impacted by above-average, annualized. Attrition appears to be concentrated in two territories of Ohio where we currently are seeing intense competition. The loss of customer accounts was primarily due to customer-initiated switches, residential moves and customer payment defaults.

Our organic marketing continues to rely upon telemarketing and direct mail channels, both of which generate enrolments through our website. In the fourth quarter, we hired a group to reinvigorate our door-to-door effort, which had been a productive source of new customers through January 2006.

In the last quarter, we received a license for a new territory, Terasen a utility territory located in British Columbia, Canada. This utility, comprised of approximately 900,000 residential, small commercial and industrial customers opens up for residential choice customers in May 2007, although it is currently opened up for commercial customers.

In December 2006, we spotted an opportunity to offer a very, competitive fixed-rate product in National Grid's Massachusetts Electric territory, and we successfully implemented a sales program within a very short time period.

During the last quarter ended December 31, 2006, we also reinvigorated our commercial marketing program, contracting with several independent professional sales agents for both telemarketing and door-to-door campaigns.

We also recruited some inside sales agents to expand SESCO's prior marketing focus on Georgia and Ohio to our other territories as well as to focus on recapturing customers acquired from Castle Power in October 2005, customers that had previously been the responsibility, solely, of Castle sales agents.

Our organic growth continued to be impacted by the shape of the forward curve, which had been in contango since we emerged from last winter with an unusual overhang of excess gas and storage after a relatively warm season.

Recent weather has absorbed this overhang so that current storage levels are back within the five-year average range. Higher forward prices meant that new fixed-price offers needed to be priced at prices that are substantially higher than short-term market prices reflected in many utility tariff rates.

With market resistance to high-priced fixed-rate products, we began to sell more variable priced and short-term fixed-price products during this period. Note that at the end of the quarter, the forward curve began to flatten and return to backwardation starting with the winter of 2007/2008.

During the quarter ended December 31, 2006, we introduced a new product, the Earth Friendly Partner Program. Under this program, we offer our customers a way of offsetting 100% of their carbon-dioxide emissions through reforestation and other programs that generate CO2 credits. Each residential customer equivalent consuming gas generates approximately 5.1 tons of CO2 emissions annually.

We continue, in addition to offering new products like this, to provide a weekly newsletter to our commercial customers as well as host a monthly conference call with energy experts from Societe Generale to update our existing and prospective customers on issues impacting our industry.

During the second quarter, we began to host a series of regional open houses for commercial customers. To further assist our commercial marketing efforts, we reorganized our pricing desk and set up a number of service-level standards that govern the speed with which we will respond to requests from customers as well as from energy consultants and brokers. Our win back programs likewise, continue to assist us in recovering customers who may have recently left us.

To update you on the transition of operational functions to Houston, we have completed the transfer of our collections department and of operational accounting to the Houston office. We have reorganized our customer data solutions along the model that had been adopted by SESCO and have expanded this group with recruitment and training of new personnel to replace those that were unable to make the move from our New Jersey office to Houston. At the same time, we have almost completed the move of IT personnel from the New Jersey office to our Houston office.

The relocation of the main service to Houston continues to progress very nicely. We are currently operating on our Siebel Lodestar system, approximately 60% of our customer base. And that Siebel Lodestar system, I'll remind you, is the CRM and the billing platform that we acquired in the SESCO acquisition.

I will now turn the call over to Chaitu for a more detailed discussion of our financial results for the three months and six months ending December 31, 2006.

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

Thank you, Jeff. As Jeff explained to you, adjusted EBITDA for the three-month period ended December 31, 2006, was \$9.4 million, an increase of \$2.1 million or approximately 29% compared to the same period in the prior year.

We recorded an estimated net gain of \$3 million in the prior-year quarter and a \$0.6 million loss in the current quarter, both of which related to settlement of risk management activities during the respective quarters associated with ending inventory balances. These gains and losses are largely offset in subsequent periods by the associated affect on margins when the inventory is sold to retail customers under fixed-rate contracts.

We also recorded \$1.8 million in losses related to a decision to vary the timing between withdrawing physical natural gas from inventory and purchasing natural gas from suppliers during winter months, that is November through March, to satisfy our customer demand.

This \$1.8 million charge will be offset by greater realized gains during the quarter ended March 31, 2007, as the company withdraws natural gas from storage to satisfy customer demand during that period.

During the three months ended December 31, 2006, MXenergy also recorded rationalization charges of \$0.5 million related to the acquisition of SESCO. After taking into consideration the gains and losses on risk management activities, the losses realized on customer supply management practices and rationalization charges recorded relating to the acquisition of SESCO, MXenergy reported a net increase of \$8 million, primarily due to the increases in gross profits resulting from the customers we acquired from SESCO.

It should be noted that though we experienced an additional \$8 million, this amount was actually dampened in comparison to the prior-year period due to warmer than normal weather experienced in the Midwest and Northeast United States. For our MXenergy customers, they experienced a 14% warmer quarter in heating degree days from the same period in the prior year, which equated to approximately 1.8 Bcf less consumption. And we estimate about \$3.9 million in gross profit opportunity loss for MXenergy.

A heating degree day is defined as the difference between 65 degrees Fahrenheit and the average ambient temperature for a day. So as an example, a day averaging 45 degrees Fahrenheit, ambient temperature would equate to 20 heating degree days.

After giving pro forma affect to the SESCO acquisition and related financings, adjusted EBITDA for the three months ended December 31, 2006, was \$9.4 million compared to adjusted EBITDA of \$17.4 million for the three months ended December 31, 2005.

The net decrease of \$8 million from the same period in the prior year is primarily due to a 14% decrease in heating degree days for the three months ended December 31, 2006, in comparison to the same period in the prior year.

As previously discussed, management estimates that gross profits saw an opportunity loss of approximately \$3.9 million during the three months ended December 31, 2006, in comparison to the same period in the prior year due to this weather condition.

The net decrease of \$8 million is inclusive of an estimated net loss of \$0.6 million in the current period as compared to an estimated net gain of \$3 million recorded in the same period in the prior year related to the settlement of risk management activities associated with ending inventory balances.

Additionally, SESCO's operating activities included percent of income payment plan or PIPP accounts for the three months ended December 31, 2005. The PIPP account contract expired on March 31, 2006 with the Dominion East Ohio Utility and is not expected to recur.

SESCO's PIPP accounts represented approximately \$35.3 million of sales and \$0.5 million of adjusted EBITDA for the three months ended December 31, 2005.

MXenergy did not acquire any PIPP accounts in connection with the SESCO acquisition. In addition, MXenergy did not acquire approximately 69,000 RCEs of SESCO's 384,000 RCEs at December 31, 2005. Those contracts were either terminated or expired between December 31st, '05 and August 1, 2006.

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Our customer base continues to be comprised of approximately 98% natural gas customers. The majority of our gas is sold during our second and third fiscal quarters, causing seasonal volatility in our earnings and cash flows. Our results, therefore, for the six months ended December 31, 2006, are not necessarily a reflection of future results.

As Jeff indicated, the average number of RCEs for the three-month period ended December 31, 2006, was approximately 661,500 RCEs, an increase of 73% or approximately 278,100 RCEs over the prior-year period, due primarily to the customers acquired in the SESCO acquisition.

Sales for the three-month period ended December 31, 2006, were \$206.9 million, up \$90 million or 77% compared to the same period in the prior year, principally due to the increased natural gas consumption associated with the accounts acquired from SESCO. Gross profit for the three-month period ended December 31, 2006, was \$25.7 million compared to a gross loss of \$73.7 million in the same period in the prior year. The change is primarily related to unrealized losses on our risk management activities of \$0.3 million and \$87 million for the three months ended December 31, 2006 and 2005 respectively, resulting from changes in forward natural gas prices between the periods. This impact should be fully offset in future periods by higher gross profit as soon as the gas is delivered to customers during the remaining terms of their fixed-rate contracts.

Again, I want to remind everyone that we have not elected to designate any derivative instruments as hedges in accordance with the provisions of SFAS 133, and accordingly, any changes in derivative value must be adjusted through unrealized losses or gains from risk management activities in the consolidated statement of operations.

The election to not perform hedge accounting can have an impact on earnings as the change in the value of derivatives may impact operations during a different period than the associated margin achieved on the physical sale of natural gas.

We will continue to experience volatility in quarterly earnings from the settlement of hedges when market prices vary from the hedge price. You're seeing some of the impact of this decision in our second quarter fiscal year 2007 operating results.

In our segment analysis, we evaluate performance based on several factors, of which the primary financial measure is gross profit adjusted to exclude the affects of any unrealized gains or losses from risk management activities. We classify our business interests into three reportable segments, residential and small commercial natural gas, mid-market commercial natural gas and electricity.

The combined adjusted gross profit for the three-month period ended December 31, 2006, was \$26 million, an increase of \$12.7 million over the prior year corresponding period.

This increase includes an estimated net gain of \$3 million recorded in the same period in the prior year and an estimated loss of \$0.6 million in the current three-month period ended December 31, 2006, related to the settlement of risk management activities during the respective quarters associated with ending inventory balances.

These gains and losses will be largely offset in subsequent periods by the associated affect on margins when the inventory is sold to retail customers under their fixed-rate contracts and assuming our hedges would have been 100% effective.

Operating expenses for the three-month period ended December 31, 2006, were \$22.7 million, up 180% from \$8.1 million in the same period in the prior year. This was primarily due to higher staffing levels and related costs, additional customer care costs, increased depreciation and amortization expenses, all of which are related to the SESCO acquisition. In addition, MXEnergy incurred one-time charges of \$0.5 million for rationalization charges related to the SESCO acquisition.

Now, I'll briefly review the six-month period ended December 31, 2006, results. Adjusted EBITDA for the six-month period ended December 31, 2006 was \$10.3 million as compared to adjusted EBITDA of \$11.2 million for the same period in the prior year.

This decrease of \$0.9 million versus the prior year was due primarily to an estimated net loss of \$1.1 million in the current period versus a net gain of \$8.9 million recorded in the same period of the prior year related the settlement of risk management activities associated with ending inventory balances.

As explained previously, the net gains and losses on risk management activities should be fully offset in subsequent periods by the associated affect on gross profit when the inventory is sold to customers under fixed-rate contracts. MXEnergy also recorded \$1.8 million in realized losses during the six months ended December 31, 2006, related to supply management decisions as previously discussed.

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In addition, non-recurring costs of \$1.8 million comprised of rationalization charges of \$1 million and compensation expense of \$0.8 million related to the SESCO acquisition were recorded in the current six-month period.

Taking into consideration all the gains and losses on risk management activities, the losses realized on customer supply management practices and rationalization and compensation charges recorded related to the SESCO acquisition, MXEnergy reported a net increase of \$12.6 million during the six months ended December 31, 2006, over the same period in the prior year, again primarily due to the SESCO acquisition.

Offsetting the \$12.6 million increase over the prior year was a decrease in gross profit earned per customer due to a 14% decline in heating degree days across our natural gas markets for the three months ended December 31, 2006 as compared to the same period in the prior year.

After giving affect to the SESCO acquisition and related financings, adjusted EBITDA on a pro forma basis was \$11.3 million for the six months ended December 31, 2006, compared to \$28.4 million in the same period in the prior year.

The net decrease of \$17.1 million from the same period in the prior year is partially due to a reduction in gross profit of \$3.9 million due to a 14% decrease in heating degree days for the three months ended December 31, 2006, compared to the same period in the prior year.

Included in the net decrease of \$17.1 million is an estimated net loss of \$1.1 million in the current period versus an estimated net gain of \$8.9 million recorded in the same period in the prior year related to the settlement of risk management activities associated with ending inventory balances.

Again, the net gains and losses on risk management activities are largely offset in subsequent periods by the associated affects on gross profit when the inventory is sold to the customers under fixed-rate contracts.

Also, as previously discussed, SESCO's operating activities included PIPP accounts for the six months ended December 31, 2005. The PIPP accounts represented approximately \$43.2 million of sales and \$0.7 million of adjusted EBITDA for the six months ended December 31, 2005. And as stated previously, MXEnergy did not acquire approximately 69,000 of SESCO's RCEs at December 31, 2005. These contracts were terminated or expired between December 31st '05 and August 1, 2006.

For the six months ended December 31, 2006, average RCEs were approximately 583,000, an increase of 58% or approximately 213,000 RCEs over the prior-year period, due primarily to the customers acquired in the SESCO acquisition.

Sales for the six months ended December 31, 2006, were \$281.2 million, up \$131.4 million or 88% compared to the same period last year, principally due to the natural gas assumption associated with the accounts purchased from SESCO.

In addition, the average selling price per unit including fee revenue increased by \$1.83 to \$11.30 per MMBtu largely due to the higher price of natural gas when fixed-price customers were added or renewed and fee income realized from certain of the SESCO acquired are included.

During the current six-month period, MXEnergy sold approximately 24.2 Bcf of natural gas compared to approximately 14.8 Bcf during the prior-year period. The increased volume is largely attributable to the customers acquired in connection with the SESCO acquisition.

However as previously explained, overall usage per customer decreased over the same period on the prior year as a result of warmer than normal weather experienced in the Midwestern and Northeastern United States during the last two of the six-month period ended December 31, 2006.

Gross loss for the six-month period ended December 31, 2006, was \$8.8 million compared to a gross profit of \$54.1 million in the same period last year. The decrease is primarily related to unrealized losses on our risk management activities of \$47.9 million and unrealized gains on our risk management activities of \$31.7 million for the six months ended December 31, 2006 and 2005 respectively.

This impact should be offset in future periods by the associated affects on gross profit as physical gas is delivered to customers during the remaining term of their fixed-rate contracts, again assuming our hedges are 100% effective.

Our principal source of liquidity for funding our ongoing operations continues to be cash from operations and availability under our revolving credit facilities. As of December 31, 2006, we had no cash advances outstanding under our revolving credit facility with Societe Generale.

We had \$151.3 million in outstanding letters of credit issued under the revolving credit facility, which serve as collateral for the performance risks associated with the future delivery of natural gas.

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As of December 31, 2006, we were in compliance with the covenants under our revolving credit facility and expect to be in compliance through the next 12-month period ended December 31, 2007.

Our hedge facility with Societe Generale provides for up to 65 Bcf of forward hedge positions. As of December 31, 2006, our forward hedge position totaled approximately 30.3 Bcf, providing us with the ability to increase our forward hedge positions by approximately 115% before we would be required to post any additional collateral.

Currently, the split between fixed price and variable price natural gas customers continues to be approximately 60% fixed and 40% variable, well within the general terms of the facility, which permit us to have up to 75% of our pledged customers under fixed-price contracts.

Based upon our current plans, levels of operation and business conditions, we believe our restricted and unrestricted cash, cash generated from operations, availability under our revolving credit facilities and the net proceeds received by us from the offering of the original notes will be sufficient to meet our capital requirement and working capital needs for the foreseeable future.

I'll now turn the call back to Jeff Mayer for some closing remarks.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

Thank you, Chaitu. Let me thank our listeners today for joining us. We appreciate your keen interest in our company, and we'll now open it up for questions. Nicole?

QUESTION AND ANSWER

Operator

[OPERATOR INSTRUCTIONS] Your first question comes from the line of [Ted Burdick] from [Camulos]. Please proceed.

Ted Burdick - Camulos - Analyst

Good afternoon, guys. Just a quick question about the residential customer equivalents, in the disclosure, there was a discussion that the annualized attrition in January of '07 was 34%. Could you sort of talk us through what's going on there and how you're responding to it?

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

Yes. As you know, we have been reporting on a quarterly basis, but occasionally, we see blips. And in the -- for the month of January, our early indications are that we saw one of these blips. I don't see -- I have no way of projecting the future, but I don't see a continuation of this. Note that this increase appears to be -- well, it is related to two territories in Ohio where we saw in the fall, a great deal of competitive activity at an interesting time.

If you recall, the fall of '05 was when prices were running up after Hurricanes Katrina and Rita.

Ted Burdick - Camulos - Analyst

Yes.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

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And so, many customers who signed on for one-year contracts at very high prices were coming up for renewal in the fall of '06. And so, we think that the January number reflects that. I can't project the future, but I think we have to take some comfort from the fact that we saw the overall attrition drop sharply from the first to the second quarter as we reported.

Ted Burdick - Camulos - Analyst

Has there been any uptick within this number of payment defaults or problems with customer credit?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

We have not seen any uptick in payment defaults or customer credit in general.

Ted Burdick - Camulos - Analyst

Okay. Just my second question is, you also mentioned that you bought back 12 million of the notes in December of '06. Can you sort of walk us through the thinking on that?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

Sure. We had an opportunity to purchase back some of the notes that we had issued. We were able to do so by drawing on our Sowood credit facility, which has a fixed rate of 9%. And given where our notes, our high-yield notes were priced, we thought it was prudent to do that, especially given that we closed on the SESCO acquisition with a slightly lower number of customers than we had originally anticipated.

And as we were coming through this winter, we noticed that commodity prices had subsided significantly from where they were earlier in the year when we sized the high-yield notes offering. And as a result, we felt based on our liquidity position, we were well within a comfortable limit in doing that acquisition.

Ted Burdick - Camulos - Analyst

Do you -- would you anticipate continuing to buy back other notes?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

Can't comment on what we're going to do in the future, so I can't say what we would be able to do in the future.

Ted Burdick - Camulos - Analyst

Okay, thank you.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

Thanks, Ted.

Operator

Your next question comes from the line of [Simon Baukh] from MacKay Shields. Please proceed.

Simon Baukh - MacKay Shields, LLC - Analyst

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Hi. Just a follow-on to that last question, does -- apart from the \$12 million revolver that's now drawn through Sowood, is there other kind of change to your cap structure pro forma for that note buyback? In other words, is availability in cash similar to where it was on your last balance sheet?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

There is no other change in the capital structure other than the draw down on the Sowood facility.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay. And can you remind me how big your revolver is, the Societe one?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

Sure. We have a \$280 million facility.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay.

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

And it's a borrowing base facility.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay.

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

And we have zero cash advances drawn against that facility, though we did have approximately \$151 million in letters of credit outstanding at the end of December.

Simon Baukh - MacKay Shields, LLC - Analyst

And what was your availability at the end of December?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

It was approximately \$28 million.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay.

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

At the end of December.

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Simon Baukh - MacKay Shields, LLC - Analyst

Okay. What was CapEx for the quarter?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

CapEx for the quarter was -- customer-acquisition spend was approximately \$2.2 million, and CapEx for fixed-asset purchases were approximately \$1.4 million. That's for the six months ended December.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay. Do you -- can you comment on what the cold -- the heating degree days are doing now in this quarter versus what -- where you were this time last year? I guess I'm ultimately trying to figure out if there's any sort of -- now that the weather's gotten colder, is there any sort of catch-up?

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

No. I can't of course, give you any projections, but I think it's public knowledge, and you can look at the population weighted heating degree day reports and see that there is a much colder January and February than we experienced last year.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay. Do you know just -- because you guys follow this stuff, what the percentage is, kind of like you said it's 14% warmer than normal in the quarter? Is it a similar percentage colder than normal now? Or, has it not caught up to that degree?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

For the first couple of weeks of February, we have experienced approximately 20% higher heating degree days.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay.

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

Than normal.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay.

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

I don't know what -- how that compares to last year. I haven't looked at that statistic.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay.

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Chaitu Parikh - MXenergy Holdings, Inc. - CFO

And in January, we were slightly warmer than normal, and it's about 8 or 9% warmer than normal.

Simon Baukh - MacKay Shields, LLC - Analyst

Right.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

But obviously, colder than last year, which was 28% warmer than normal.

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

That's correct.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay. You talked about kind of the \$9 million -- hit the EBITDA from the settlement of risk management and how that kind of -- if you're doing things the way you expect that that'll reverse itself in future periods. How long does that typically take?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

That will reverse itself in the March quarter.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay. So, it's in the next period?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

Correct.

Simon Baukh - MacKay Shields, LLC - Analyst

You talked about the \$1.5 million kind of one-time expense related to the employee severance and rationalization from the acquisition. And I've asked you this before, but I'll ask you again, is there any -- do you have any sense of cost savings that you guys have been able to realize, either to date or what you expect on a run rate basis?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

We haven't made that disclosure anywhere in our public filings to date, so I don't have a number that I could share with you at this moment.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay. My last question was, I have two more questions. One was, can you just comment on the competition in Ohio?

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Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

Sure. Ohio is, as you know, one of the oldest competitive markets. The penetration there is over 60% of residential and commercial customers, similar to what we see in Ontario, far higher than any of our other territories. We also have a larger number of marketers than anywhere else that we face in Ohio. And you may recall that Ohio was one of the two markets in the SESCO acquisition. So, we have a large number of customers when we combine the legacy MXenergy book with SESCO book.

Accordingly, in that territory in particular, we are definitely exposed to more competition than elsewhere. We noticed in the last quarter, a number of very aggressive marketers that were pursuing shorter-term and variable products in contrast to our longer-term price protection products. We have adapted our marketing to what we see our competitors doing, and I can't tell you how that's going to look in the future. But, we do continue to have a healthy business there and a healthy market share.

Simon Baukh - MacKay Shields, LLC - Analyst

But, you're not seeing similar competitors trying to take advantage of the other SESCO territories? It's just that Ohio thing?

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

SESCO -- I'm sorry, did you finish Simon?

Simon Baukh - MacKay Shields, LLC - Analyst

Yes.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

The other SESCO territory of course was Georgia.

Simon Baukh - MacKay Shields, LLC - Analyst

Right.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

And as you saw, after the first quarter, we saw the attrition numbers there drop sharply from what we had seen earlier. I didn't break it out between Georgia and Ohio, but the overall attrition numbers for the first quarter were some 36% of in-contract attrition, which dropped to 28% for the second quarter. So, I think you can infer where Georgia is.

I think I'll answer an extension of your question with respect to all of the MXenergy territories, we do not see any similar competitive pressure.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

With the exception perhaps of Ontario, which of course is a very small territory for us.

Simon Baukh - MacKay Shields, LLC - Analyst

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Okay. What was your -- the last question is for Chaitu here, which is just what your fixed charged coverage ratio's looking like as of the end of December.

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

We are in compliance as of the end of December. The covenant is a 2.0 coverage, and we've run the analysis and we are in compliance. And we continue to feel that we will be in compliance for the next 12 months.

Simon Baukh - MacKay Shields, LLC - Analyst

Can you disclose what it is?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

It -- I don't believe we have disclosed that number anywhere.

Simon Baukh - MacKay Shields, LLC - Analyst

Okay, thank you.

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

Okay.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

Thank you, Simon.

Operator

[OPERATOR INSTRUCTIONS] Your next question comes from the line of John King from AIG. Please proceed.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

Good morning, John. You may have us on mute.

John King - AIG - Analyst

Hi, okay. You alluded to the attrition being higher amongst the SESCO customers due to the one-time event of the acquisition. Has that trend -- has that trend come to a stop as far as you can tell? Is that higher attrition over, related to that?

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

I believe it is. Of course, one never knows what the cause of attrition is. But, I think it's fair to say, from the numbers that we disclosed earlier, the drop was fairly sharp between the first and the second quarter. Going back close to our historic norms, there's no doubt that there's been an impact from the fact that in '05, we saw much higher prices compared to where we are today.

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But, I think the numbers speak for themselves, and while we spoke in those numbers globally, we can tell you that most of the attrition was in Georgia and Ohio, which of course, is where the SESCO book was located.

I -- just to flush out a little bit of what I said earlier, as you may know, in -- when a marketer acquires another book of business, he is required by law and regulation, the rules of the utilities, to notify customers of the assignment and assumption of the supply agreement and often, the notifications provide a cost-free opt-out ability. And we have experienced in our prior acquisitions, a certain percentage of customers leaving. We anticipated that here, and that in fact, was the case.

John King - AIG - Analyst

Okay, that's fair. When did those notices go out?

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

They have to go out within a certain amount of time prior to the assignment. We were given permission by the Georgia regulators to send out a notice in early June, and -- or early July, was it? Sorry, early July, even though our actual merger date was August 1st. I don't recall the Ohio date, but it would have been similar.

Generally, the utilities want that notice to go out within about 30 days, so you get a little blip in cancellations when the notices hit. And then, you often get them over the next few weeks. And it's difficult to keep the horses in the barn if they want to bolt, even after the 30 days expires. So, there is definitely an impact.

John King - AIG - Analyst

That's good. I was just trying to gauge if customers had had enough time to make their decisions. And so, it sounds like they've had plenty of time, and likely, they've decided what they're going to do by now.

I also wanted to understand residential moves. Is that folks moving out of your territories and so, they can't be customers anymore? Or, is that moves within territory and they just opt to switch to another provider?

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

No. It's generally a move out of the territory, but because we're in so many different territories, we offer customers the ability to transport their contracts, similar to a cell phone agreement. But, we don't cover everywhere of course, and so a number of our customers move. And within the category of moves, you might also include customers that die and clearly, their contracts end as well.

John King - AIG - Analyst

Good. For the attrition number for the last quarter, the 28% annualized I believe it was, can you break that down by the three main reasons you gave, the customer switches, moves, and then payment defaults?

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

I don't believe we've done that in any of our disclosures. I've -- I believe in our offering memorandum, we described the reasons. I don't know if we gave a break-down of what the reasons are. But, I don't think we've seen a change in the ratios of switches, other than perhaps we've seen more customer-initiated switches from price movement than from other sources.

John King - AIG - Analyst

Okay. So, it's fair to say the customer-initiated switches or price shopping was qualitatively kind of the main thing that was higher than normal? Is that fair.

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Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

That's a fair statement.

John King - AIG - Analyst

Okay. And then the very last question, the covenants in your Sowood facility, I wanted to understand what minimum forward book values means. Presumably, the other covenants look at current or historical metrics, but that word forward there, I just wanted to understand what forward book value means. And, is that a forward-looking number?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

It is a forward-looking number, and it's projecting the forward margin implicit in our portfolio. And this facility was actually negotiated several years ago. And the -- again, we see no issue with meeting any of the covenants that are set in that facility.

John King - AIG - Analyst

Okay. So, it's some sort of calculation of what the current book as of -- a snapshot of a current -- of a certain date, what that book is worth in other words?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

Correct. It is the forward -- it's the forward projected margin from our customer base, assuming a level of attrition that's embedded in the base.

John King - AIG - Analyst

It's some sort of net present value of that number?

Chaitu Parikh - MXenergy Holdings, Inc. - CFO

Correct. That's correct.

John King - AIG - Analyst

Okay. Okay, great. Those are all my questions, thank you.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

Thank you.

Operator

And there are no questions at this time. I would like to turn the presentation back over to Miss Robi Artman-Hodge. Please proceed.

Robi Artman-Hodge - MXenergy Holdings, Inc. - EVP

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If there are no further questions, I want to thank all of you for joining us today. As a reminder, MXEnergy will furnish its quarterly report for the three months ended December 31, 2006 to the trustee of its senior floating-rate notes today as well as post the report to the MX Holdings' website.

We also intend to furnish the trustee on or before February 20, 2007, a current report containing this transcript. And we'll also be posting the transcript onto the MX Holdings' website at approximately the same time.

So, thank you again for your continued interest in the company. And we look forward to speaking with you next quarter.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

Jeffrey A. Mayer - MXenergy Holdings, Inc. - President, CEO

Thank you, Nicole.

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