

**QUARTERLY REPORT
FOR THE QUARTER ENDED
December 31, 2006**

MXENERGY HOLDINGS INC.

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Pursuant to Section 4.03 of the Indenture, dated as of August 4, 2006 (the “Indenture”), by and among MxEnergy Holdings Inc. (“MXenergy”), certain of its subsidiaries named therein, as Guarantors, Law Debenture Trust Company of New York, as Trustee (the “Trustee”), and Deutsche Bank Trust Company Americas, as Paying Agent and Registrar, relating to the Floating Rate Senior Notes due 2011 issued by MXenergy (the “Notes”), MXenergy is furnishing the information contained herein to the holders of the Notes.

MXENERGY HOLDINGS INC.
QUARTERLY REPORT FOR THE QUARTER ENDED
DECEMBER 31, 2006
TABLE OF CONTENTS

<u>Item Number</u>	<u>Page Number</u>
Cautionary Note Regarding Forward-Looking Statements	i
PART I – FINANCIAL INFORMATION	
1. Financial Statements	
Condensed Consolidated Balance Sheets at December 31, 2006, 2005 and June 30, 2006.....	1
Condensed Consolidated Statements of Operations for the Three Months Ended December 31, 2006 and 2005.....	2
Condensed Consolidated Statements of Operations for the Six Months Ended December 31, 2006 and 2005.....	3
Condensed Consolidated Statements of Stockholders' Equity (Deficit) for the Six Months Ended December 31, 2006 and 2005.....	4
Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2006 and 2005.....	5
Notes to Condensed Consolidated Financial Statements.....	6
2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	31
3. Quantitative and Qualitative Disclosures about Market Risk.....	46
4. Controls and Procedures.....	48
PART II – OTHER INFORMATION	
1. Legal Proceedings.....	50
1A. Risk Factors.....	50
2. Unregistered Sales of Equity Securities and Use of Proceeds.....	50
3. Defaults Upon Senior Securities.....	50
4. Submission of Matters to a Vote of Security Holders.....	50
5. Other Information.....	50
6. Exhibits.....	50
Signatures.....	53

Cautionary Note Regarding Forward-Looking Statements

Some statements in this Quarterly Report are known as “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act. Forward-looking statements may relate to, among other things:

- future performance generally;
- our business goals, strategy, plans, objectives and intentions;
- our integration of the assets of Shell Energy Services Company, L.L.C. post-acquisition;
- expectations concerning future operations, margins, profitability, attrition, bad debt, interest rates, liquidity and capital resources; and
- expectations regarding the effectiveness of our hedging practices and the performance of suppliers, pipelines and transmission companies, storage operators, independent system operators, and other counterparties supplying, transporting, and storing physical commodity.

These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Quarterly Report that are not historical facts. When used in this Quarterly Report, the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and similar expressions are generally intended to identify forward-looking statements. 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, including our plans, objectives, expectations and intentions and other factors discussed in our Annual Report for the year ended June 30, 2006. You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Quarterly Report was furnished to the Trustee. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

MxEnergy Holdings Inc.
Condensed Consolidated Balance Sheets as of December 31, 2006 and 2005 and June 30, 2006
(Dollars in thousands)
(Unaudited, see Note 1)

	December 31,		June 30,
	2006	2005	2006
Assets			
Current assets:			
Cash.....	\$12,188	\$559	\$6,093
Restricted cash and short term investments	325	16,825	427
Accounts receivable, net of allowance for doubtful accounts of \$4,492, \$2,340 and 3,285, respectively	124,300	83,357	31,575
Inventories.....	71,034	31,409	18,499
Current portion of unrealized gains from risk management activities	7	90,155	1,664
Income taxes receivable.....	12,769	4,363	5,535
Deferred income taxes	16,866	—	1,046
Other current assets.....	18,185	4,849	2,678
Margin deposit on hedge facility	25,000	—	—
Total current assets	<u>280,674</u>	<u>231,517</u>	<u>67,517</u>
Customer acquisition costs, net of accumulated amortization of \$28,320, \$15,913 and \$19,173, respectively	45,204	11,655	10,822
Fixed assets, net	19,570	6,649	8,637
Unrealized gains from risk management activities	—	21,447	1,272
Deferred income taxes	12,087	—	3,395
Deposit on SESCo asset purchase agreement and other capitalized costs ..	—	—	3,348
Other assets, net	9,382	2,159	2,978
Total assets	<u>\$366,917</u>	<u>\$273,427</u>	<u>\$97,969</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)			
Current liabilities:			
Accounts payable and accrued expenses.....	\$41,559	\$18,222	\$14,898
Accrued commodity purchases.....	63,473	44,358	14,544
Current portion of unrealized losses from risk management activities	36,931	2,119	452
Loans payable	—	41,500	—
Deferred income taxes	—	33,678	—
Total current liabilities	<u>141,963</u>	<u>139,877</u>	<u>29,894</u>
Unrealized losses from risk management activities	15,628	63	3,325
Long-term debt, net.....	184,958	—	—
Deferred income taxes	—	6,229	—
Total liabilities	<u>342,549</u>	<u>146,169</u>	<u>33,219</u>
Redeemable convertible preferred stock (\$31 million redemption value) ..	29,357	29,357	29,357
Commitments.....	—	—	—
Stockholders' equity (deficit):			
Common stock, par value \$0.01, 10,000,000 shares authorized; 3,394,400, 3,326,327 and 3,388,815 shares issued and outstanding, respectively	34	33	34
Additional paid-in capital	18,376	18,451	17,355
Unearned stock compensation.....	(44)	(73)	(115)
Accumulated other comprehensive loss	(1)	(19)	(40)
Retained earnings (deficit).....	(23,354)	79,509	18,159
Total stockholders' equity (deficit).....	<u>(4,989)</u>	<u>97,901</u>	<u>35,393</u>
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit).....	<u>\$366,917</u>	<u>\$273,427</u>	<u>\$97,969</u>

See accompanying notes.

MxEnergy Holdings Inc.
Condensed Consolidated Statements of Operations
For The Three Months Ended December 31, 2006 and 2005
(Dollars in thousands)
(Unaudited)

	2006	2005
Sales of natural gas and electricity	\$206,942	\$116,917
Cost of goods sold (excluding depreciation and amortization):		
Cost of natural gas and electricity sold.....	166,064	148,355
Realized losses (gains) from risk management activities	14,859	(44,725)
Unrealized losses from risk management activities	335	87,019
	181,258	190,649
Gross profit (loss)	25,684	(73,732)
Operating expenses:		
General and administrative expenses	13,969	4,149
Advertising and marketing expenses.....	2,012	644
Reserves and discounts	590	753
Depreciation and amortization.....	6,167	2,575
Total operating expenses	22,738	8,121
Operating profit (loss).....	2,946	(81,853)
Interest expense—net of interest income of \$686 and \$298, respectively	8,705	909
Loss before income tax benefit.....	(5,759)	(82,762)
Income tax benefit.....	1,829	33,523
Net loss	\$(3,930)	\$(49,239)

See accompanying notes.

MxEnergy Holdings Inc.
Condensed Consolidated Statements of Operations
For The Six Months Ended December 31, 2006 and 2005
(Dollars in thousands)
(Unaudited)

	2006	2005
Sales of natural gas and electricity	\$281,232	\$149,783
Cost of goods sold (excluding depreciation and amortization):		
Cost of natural gas and electricity sold.....	223,058	193,103
Realized losses (gains) from risk management activities	19,032	(65,724)
Unrealized losses (gains) from risk management activities.....	47,940	(31,736)
	290,030	95,643
Gross (loss) profit	(8,798)	54,140
Operating expenses:		
General and administrative expenses	25,798	9,742
Advertising and marketing expenses.....	2,845	993
Reserves and discounts	1,481	1,019
Depreciation and amortization.....	12,677	4,213
Total operating expenses	42,801	15,967
Operating (loss) profit.....	(51,599)	38,173
Interest expense—net of interest income of \$1,135 and \$652, respectively	17,340	1,325
(Loss) income before income tax benefit (expense)	(68,939)	36,848
Income tax benefit (expense).....	27,426	(15,281)
Net (loss) income	\$(41,513)	\$21,567

See accompanying notes.

MxEnergy Holdings Inc.
Condensed Consolidated Statements of Stockholders' Equity (Deficit)
For The Six Months Ended December 31, 2006 and 2005
(Dollars in thousands)
(Unaudited)

	Common Stock Par Value	Additional Paid-in Capital	Unearned Stock Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at June 30, 2005	\$33	\$18,114	\$(165)	\$(4)	\$57,942	\$75,920
Unamortized stock compensation...	—	461	(461)	—	—	—
Purchase and cancellation of treasury shares.....	—	(124)	—	—	—	(124)
Amortization of stock compensation	—	—	553	—	—	553
Comprehensive income:						
Net income	—	—	—	—	21,567	21,567
Foreign currency translation	—	—	—	(15)	—	(15)
Comprehensive income	—	—	—	(15)	—	21,552
Balance at December 31, 2005	<u>\$33</u>	<u>\$18,451</u>	<u>\$(73)</u>	<u>\$(19)</u>	<u>\$79,509</u>	<u>\$97,901</u>

	Common Stock Par Value	Additional Paid-in Capital	Unearned Stock Compensation	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total Stockholders' Equity (Deficit)
Balance at June 30, 2006	\$34	\$17,355	\$(115)	\$(40)	\$18,159	\$35,393
Unamortized stock compensation...	—	709	(709)	—	—	—
Purchase and cancellation of treasury shares.....	—	(173)	—	—	—	(173)
Stock compensation expense	—	485	—	—	—	485
Amortization of stock compensation	—	—	780	—	—	780
Comprehensive loss:						
Net loss	—	—	—	—	(41,513)	(41,513)
Foreign currency translation	—	—	—	39	—	39
Comprehensive loss	—	—	—	39	—	(41,474)
Balance at December 31, 2006	<u>\$34</u>	<u>\$18,376</u>	<u>\$(44)</u>	<u>\$(1)</u>	<u>\$(23,354)</u>	<u>\$(4,989)</u>

See accompanying notes.

MxEnergy Holdings Inc.
Condensed Consolidated Statements of Cash Flows
For The Six Months Ended December 31, 2006 and 2005
(Dollars in thousands)
(Unaudited)

	2006	2005
Operating activities		
Net (loss) income	\$(41,513)	\$21,567
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Unrealized losses (gains) from risk management activities	47,940	(31,736)
Stock compensation expense	1,265	553
Depreciation and amortization	12,677	4,213
Deferred tax (benefit) expense	(24,512)	11,583
Unrealized losses on interest rate swaps and amortization of deferred financing fees	4,741	242
Changes in assets and liabilities, net of effects of acquisition:		
Net inflow (outflow) in restricted cash and short term investments	102	(9,444)
Accounts receivable	(75,699)	(64,784)
Inventories	(16,199)	(15,596)
Income taxes receivable	(7,234)	(4,363)
Margin deposit on hedge facility	(25,000)	—
Option premiums	1,834	—
Other current assets	4,462	(665)
Accounts payable and accrued expenses	74,502	25,908
Net cash used in operating activities	(42,634)	(62,522)
Investing activities		
Purchase of assets of Shell Energy Services Company L.L.C. ("SESCo")	(126,044)	—
Deposit on SESCO asset purchase agreement and other capitalized costs	3,348	—
Purchase of customer portfolio from Castle Power LLC	—	(3,150)
Customer acquisition costs	(2,388)	(4,543)
Purchases of fixed assets	(1,393)	(2,853)
Net cash used in investing activities	(126,477)	(10,546)
Financing activities		
Proceeds from loans	—	138,008
Repayments of loans	—	(112,887)
Debt financing costs	(9,188)	—
Repayments of long term debt	—	(5,000)
Proceeds from Sowood credit facility	23,040	—
Repayment of Sowood credit facility	(12,000)	—
Proceeds from bridge loan	190,000	—
Repayment of bridge loan	(190,000)	—
Proceeds from senior notes	185,250	—
Repurchase of senior notes	(11,723)	—
Purchase of common stock for cancellation	(173)	(124)
Net cash provided by financing activities	175,206	19,997
Net increase (decrease) in cash	6,095	(53,071)
Cash at beginning of period	6,093	53,630
Cash at end of period	\$12,188	\$559

See accompanying notes.

MxEnergy Holdings Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited, except for disclosures as of June 30, 2006, see Note 1)

1. Organization and Business

MxEnergy Holdings Inc. ("Holdings") was incorporated on January 24, 2005 as a Delaware corporation. Holdings was formed as part of a corporate reorganization which was completed in the year ended June 30, 2005. The two principal operating subsidiaries of Holdings are MxEnergy Inc. and MxEnergy Electric Inc. which are engaged in the marketing and supply of natural gas and electricity, respectively. Holdings and all operating and holding subsidiaries (collectively, the "Company") operates in 30 market areas located in 12 states and the Province of Ontario.

As part of the reorganization, the common and preferred stockholders of MxEnergy Inc. became stockholders of Holdings on a one-for-one basis. The purpose of the reorganization was to split the gas and electric businesses into separate entities. Since all transactions were between entities under common control, there was no accounting impact as a result of the reorganization.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. Operating results for the three and six months ended December 31, 2006 are not necessarily indicative of the results to be expected for the year ending June 30, 2007. Our business is subject to substantial seasonal variations. Natural gas accounts for 98% of our total annual sales which exposes us to a high degree of seasonality in our cash flows and income earned throughout our fiscal year. We utilize a considerable amount of cash from operations and borrowings under our revolving credit facility to fund working capital, primarily inventory purchases, during the months of April through October each calendar year (primarily our last and first fiscal quarters). We sell the majority of our natural gas during the months of November through March of each calendar year (primarily our second and third fiscal quarters). We expect the significant seasonality impacts to our cash flows and earnings will continue during fiscal 2007. For further information, see the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended June 30, 2006 and elsewhere in this Quarterly Report.

The condensed consolidated balance sheet at June 30, 2006 has been derived from our audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

You should read the accompanying unaudited condensed consolidated financial statements in conjunction with our consolidated financial statements and notes thereto included in our Annual Report for the year ended June 30, 2006.

The Company's independent auditors have not completed their review of this Quarterly Report for the three and six months ended December 31, 2006 and 2005 due to the Company's inability to perform a timely financial statement close as a result of its material weaknesses as discussed in its Annual Report for the year ended June 30, 2006 and in this Quarterly Report. The Company expects their independent auditors to complete their review by the end of March 2007. Upon completion of such review, the Company will file an amended Quarterly Report.

2. Summary of Significant Accounting Policies (continued)

Revenues

Revenues from the sale of natural gas and electricity are recognized in the period in which the commodity is consumed by customers or, in certain circumstances, when title passes upon delivery to the local distribution company ("LDC"). Sales of natural gas and electricity are generally billed by the LDC, acting as the Company's agents, on a monthly cycle basis. The billing cycles for customers do not coincide with the accounting periods used for financial reporting purposes. The Company follows the accrual method of accounting for revenues whereby revenues applicable to gas and electricity consumed by customers, but not yet billed under the cycle billing method, are estimated and accrued along with the related costs, and included in operations. Such estimates are refined in subsequent periods upon obtaining final information from the LDC. Any change in estimates is reflected in operations in the period determined. Transportation and storage costs are included as a component of cost of goods sold. Unbilled accounts receivable were approximately \$49.5 million, \$4.7 million and \$29.3 million at December 31, 2006, June 30, 2006 and December 31, 2005, respectively. Revenues from the sale of natural gas and electricity are reflected net of any applicable sales tax.

Inventories

Inventories consist of natural gas held by third parties on the Company's behalf and are valued at the lower of cost or market on a weighted average cost basis.

Concentration of Credit Risk

Prior to August 1, 2006, the Company, through its Energy Marketing Agreement (the "EMA") with Virginia Power Energy Marketing, Inc. ("VPEM") engaged in transactions with VPEM for the purchase of derivative instruments and physical natural gas purchases. With limited exceptions, the EMA was exclusive and, as a result, predominantly all of the Company's transactions were with VPEM. The Company was party to a master netting agreement which mitigated the exposure to credit risk as the Company had borrowings from VPEM under the Agreement (see Note 4).

On August 1, 2006, the Company entered into a committed exclusive hedge facility (the "Hedge Facility") with Société Générale.

The Hedge Facility has an initial term of two years with subsequent one year renewal terms. The Hedge Facility provides the Company with the ability to enter into NYMEX natural gas and natural gas basis swaps for a tenor of up to 39 months. Fees under the Hedge Facility include an annual management fee, a volumetric fee based on the tenor of the swap and fees to allow Société Générale to hedge its potential risks arising from material declines of natural gas market prices based on the Company's overall hedge position with them. All such fees are charged to interest expense.

The Hedge Facility is secured by a first lien on customer contracts and a second lien on substantially all other assets of the Company. In addition, the Company provided a total of \$25 million as collateral for potential negative mark-to-market changes in the value of the forward hedge position. Within the defined volumetric limits of the Hedge Facility, the Company will not be required to post additional collateral beyond the initial margin requirements.

In connection with entering into the Hedge Facility, the Company no longer purchases derivative instruments under the EMA.

2. Summary of Significant Accounting Policies (continued)

Customer Acquisition Costs

Customer acquisition costs represent the purchase price of customer contracts acquired from independent third parties and through bulk acquisitions. These costs are capitalized and amortized over an estimated three year average life of a customer. In addition, beginning July 1, 2005 direct response advertising costs which consist primarily of hourly-based telemarketing costs associated with proven customer generation, are capitalized and amortized over the estimated average life of a customer in accordance with the provisions of Statement of Position No. 93-7 "Reporting on Advertising Costs." Net direct response advertising costs included in customer acquisition costs at December 31, 2006, June 30, 2006 and December 31, 2005 were approximately \$6.2 million, \$4.1 million and \$2.0 million, respectively. All costs associated with servicing and maintaining customer accounts are expensed as incurred. Amortization expense relating to capitalized customer acquisition costs for the three months ended December 31, 2006 and 2005 was \$4.3 million and \$2.0 million, respectively and \$9.2 million and \$2.6 million, for the six months ended December 31, 2006 and 2005, respectively.

Stock-Based Compensation

The Company currently has three stock-based compensation plans in effect, under which warrants and options have been issued to employees, non-employees and directors. In December 2004, the FASB issued Statement on Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), which requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and the measurement based on the grant-date fair value of the award. It also requires the cost to be recognized over the period during which an employee is required to provide services in exchange for the award (i.e., the vesting period). SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock Based Compensation" ("SFAS No. 123") and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations. The Company adopted SFAS No. 123R on July 1, 2006. As the Company historically utilized the minimum value method for pro forma disclosures under the original provisions of SFAS No. 123, it was required to adopt the provisions of SFAS No. 123R using the prospective method. Under the prospective method, the Company will continue to account for non-vested awards outstanding at the date of adoption of SFAS No. 123R in the same manner as they had been accounted for prior to adoption for financial statement recognition purposes (see further discussion below). All awards granted, modified or settled after the adoption will be accounted for using the measurement, recognition and attribution provisions of SFAS No. 123R. The adoption of SFAS No. 123R did not have any financial impact on the Company's financial position, results of operations or cash flows for all awards granted prior to June 30, 2006.

The Company has elected to follow APB No. 25 and related interpretations, in accounting for all stock options and warrants ("awards") granted to employees, rather than the alternative fair value method allowed under SFAS No. 123 for all awards granted prior to June 30, 2006. APB No. 25 provides that compensation expense relative to the Company's employee stock and stock option grants be measured based on the intrinsic value of the stock or stock option at the date of grant.

The Company follows SFAS No. 123 and Emerging Issues Task Force ("EITF") No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," for all awards granted to non-employees prior to June 30, 2006. The Company uses the Black-Scholes option-pricing model for estimating the fair value of non-employee grants. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected price volatility. Because the Company's stock options and warrants have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

2. Summary of Significant Accounting Policies (continued)

The Company has issued warrants to purchase the common stock of the Company to certain employees which permit the employee to exercise such warrant for cash or by withholding from shares that would otherwise be issued upon exercise of the warrant that number of shares having a fair market value equal to the warrant exercise to allow a cashless exercise of the warrant.

As a result of such feature, a presumption exists that an employee will elect the cashless exercise and therefore such warrants are accounted for using variable plan accounting. Under variable plan accounting, compensation cost is measured as the amount by which the estimated fair value of the shares of the Company's common stock covered by such warrants exceeds the exercise price of the warrant. Prior to June 30, 2006, the Company estimated the fair value of its common stock using an internally developed pricing model validated by external transactions in the Company's common stock. At December 31, 2006, the Company utilized a valuation model validated by an independent valuation services firm to value its common stock. Compensation cost is accrued as a charge to expense over the vesting period of such warrants using the accelerated expense attribution method under Financial Accounting Standards Board ("FASB") Interpretation No. 28 "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans." Changes, either increases or decreases, in the estimated fair value of the Company's common stock between the date of grant and the exercise date result in a change in the measure of compensation for the award which is reflected in compensation expense in the period in which the changes in estimated fair value occur. Accrued compensation for an award that is forfeited or cancelled is adjusted by decreasing compensation expense in the period of forfeiture or cancellation. During the three months ended December 31, 2006 and 2005, compensation (benefit) expense relating to such warrants amounted to \$(0.5) million ((\$0.3) million net of tax) and \$(0.4) million ((\$0.2) million net of tax), respectively, and \$0.8 million (\$0.5 million net of tax) and \$0.6 million (\$0.4 million net of tax) during the six months ended December 31, 2006 and 2005, respectively.

Recently Issued Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN No. 48 is effective for the Company on July 1, 2007. The Company has not yet determined the impact of adopting FIN No. 48 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 also responds to investors' requests for expanded information about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS No. 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (i.e. the Company's fiscal year ended June 30, 2009). Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The Company has not yet determined the impact of adopting SFAS No. 157 on its consolidated financial statements.

3. Acquisitions

On November 1, 2005, the Company acquired certain natural gas customer contracts of Castle Power LLC ("Castle"). Castle marketed natural gas to small and mid-market commercial customers in New York and New Jersey. Castle served approximately 2,200 customers in five markets. The acquisition was accounted for as a purchase of intangible assets. The Company assumed the obligations to serve certain fixed-priced customers under contracts that extend to December 2006 and that were at below-market prices as of the acquisition date, which liability was estimated to be \$3.6 million. Such amount is being adjusted through cost of natural gas and electricity sold as the Company makes deliveries under such contracts. As of December 31, 2006, June 30, 2006 and December 31, 2005, the carrying value of the contract liability was approximately \$0, \$0.4 million and \$2.3 million, respectively. The liability assumed by the Company represents the initial cost of the customer contracts acquired and was capitalized as customer acquisition costs and is being amortized over an estimated three-year life. In addition, a fee of \$0.07 per MMBtu will be paid to Castle over a four year term from the date of acquisition upon continued Castle account executive assistance, revenue generation and collection from the acquired customers ("Contingent Consideration"). The Contingent Consideration is payable on a quarterly basis in arrears and will be payable for volumes consumed and paid for on certain customer contracts acquired. The payment is determined at the end of each quarter and capitalized as part of customer acquisition costs and amortized over the remaining customer life. As of December 31, 2006, June 30, 2006 and December 31, 2005, Contingent Consideration payable to Castle was approximately \$35,000, \$130,000 and \$0, respectively. No cash or other working capital assets were acquired as part of the acquisition. The results of operations associated with the customers acquired from Castle are included in the Company's operating results from the date of acquisition.

On May 12, 2006, the Company entered into an Asset Purchase Agreement ("APA") with Shell Energy Services Company, L.L.C. ("SESCO") pursuant to which the Company agreed to purchase substantially all of the assets of SESCO (the "Acquisition"). SESCO, a wholly owned subsidiary of Shell Oil Company, is a retail energy marketer that serves residential and small to mid-market commercial customers in Georgia and Ohio. The Acquisition added approximately 315,000 residential customer equivalents ("RCEs," each reflecting 100 MMBtus of annual natural gas consumption) and Georgia to the list of states in which the Company operates. As of June 30, 2006, the Company had deposited \$3 million in escrow relating to the purchase and had capitalized approximately \$0.3 million of costs directly related to the Acquisition. On August 1, 2006, the Company consummated the Acquisition for aggregate consideration of approximately \$125.5 million with the proceeds of a bridge loan (see Note 4). During the three months ended December 31, 2006, the Company paid an additional \$0.5 million for the purchase of SESCO based on certain post closing adjustments as defined in the APA, resulting in a total purchase price of \$126.0 million. The Acquisition is being accounted for as a purchase business combination and the results of operations of SESCO are included in the Company's operating results beginning on August 1, 2006. The Acquisition was initially financed by utilizing the proceeds from a \$190 million bridge loan which was repaid on August 4, 2006 from the proceeds received by the issuance of \$190 million of floating rate senior notes (see Note 4).

At August 1, 2006, the preliminary purchase price was initially allocated based upon the estimated fair value of the net assets acquired at the date of acquisition. The final allocations will be based on independent valuations that have not yet been completed and will be subject to change when the valuations are completed during fiscal year 2007. During the three months ended December 31, 2006, the Company revised the initial purchase price allocation based on re-evaluating the internal methodologies to value certain acquired assets, primarily the customer contract assets acquired. Included in the revised purchase price allocation as of December 31, 2006 is approximately \$6.4 million of negative goodwill, which has been allocated on a pro rata basis to decrease the fair value of fixed assets and customer acquisition costs acquired. The following table presents the initial and revised allocation of purchase price (in thousands):

	<u>Initial Allocation</u>	<u>Revised Allocation</u>
Accounts receivable.....	\$16,392	\$17,055
Inventory	33,501	36,336
Prepaid peaking service	-	2,652
Fixed assets	15,000	13,058
Customer acquisition costs	56,381	41,141
Customer contract assets	6,306	16,947
Customer contract liabilities.....	<u>(2,050)</u>	<u>(1,145)</u>
 Total	 <u>\$125,530</u>	 <u>\$126,044</u>

3. Acquisitions (continued)

The customer acquisition costs will be amortized over an estimated three year average life of a customer.

The following unaudited pro forma financial information assumes the Acquisition had occurred on July 1, 2005 with respect to the three and six months ended December 31, 2005 and July 1, 2006 with respect to the six months ended December 31, 2006. The pro forma information is not necessarily indicative of the results that would have been obtained had the Acquisition occurred on such dates nor is it necessarily indicative of future results (in thousands):

	Three months ended December 31, 2006	Three months ended December 31, 2005
Sales of natural gas and electricity	N/A	\$346,758
Net loss.....	N/A	\$(52,121)
	Six months ended December 31, 2006	Six months ended December 31, 2005
Sales of natural gas and electricity	\$297,432	\$447,078
Net (loss) income	\$(38,130)	\$14,587

SESCO's operating activities included Percent of Income Payment Plan ("PIPP"), accounts for the three and six months ended December 31, 2005. The PIPP account contract expired on March 31, 2006 with the Dominion of East Ohio utility and is not expected to recur. SESCO's PIPP accounts represented approximately \$35.3 million and \$43.2 million of sales and \$0.5 million and \$0.7 million of net income for three and six months ended December 31, 2005, respectively. We did not acquire any PIPP accounts in connection with the Acquisition. In addition, we did not acquire from SESCO any contracts which terminated or expired between December 31, 2005 and August 1, 2006.

In August 2006, the Company approved and announced to employees a plan to move certain of its operations to Houston, Texas in connection with the Acquisition. The terms of the rationalization plan, which are specific to each employee affected, include various employee benefit cost components such as severance, retention bonuses and reimbursement of relocation costs. Certain of the employee benefit costs are contingent on future events, such as continued employment during defined transition periods. The Company estimates the maximum rationalization charges for the plan, all of which relate to employee severance and benefits, will amount to approximately \$1.5 million. The Company recorded rationalization charges of \$0.5 million and paid rationalization charges of \$0.1 million during the three months ended December 31, 2006 and \$1.0 million and \$0.3 million, respectively, during the six months ended December 31, 2006. The Company expects to record \$0.4 million and \$0.1 million of rationalization charges during the remainder of fiscal year 2007 and fiscal year 2008, respectively. The Company expects to pay \$0.5 million and \$0.7 million of such employee severance and benefits during the remainder of fiscal year 2007 and fiscal year 2008, respectively. All rationalization charges have been recorded to general and administrative expenses in the condensed consolidated statement of operations.

4. Loans Payable and Long Term Debt

Bridge Loan

On May 12, 2006, in conjunction with the execution of the APA, the Company entered into a bridge loan commitment letter with two investment banks to provide up to \$200 million in bridge loans (the "Bridge Loan") to finance the Acquisition. On August 1, 2006, the Company utilized \$190 million of the Bridge Loan to finance the Acquisition. Fees and interest associated with the Bridge Loan approximated \$0.8 million. On August 4, 2006, the Company repaid the \$190 million Bridge Loans from the issuance of \$190 million aggregate principal amount of Floating Rate Senior Notes due 2011 (the Senior Notes") and as a result the Company wrote-off the aforementioned costs as a charge to interest expense.

Senior Notes

On August 4, 2006, the Company issued \$190 million aggregate principal amount of Senior Notes at 97.5% of par value. The Senior Notes mature on August 1, 2011 and bear interest at a rate equal to LIBOR plus 7.5% per annum. Interest is reset and payable semi-annually on February 1 and August 1 of each year. On or before August 1, 2009, upon an equity offering,

4. Loans Payable and Long Term Debt (continued)

the Company may redeem up to 35% of the aggregate principal amount of the Senior Notes at a price equal to 100% of the principal amount, plus a premium equal to the rate per annum on the Senior Notes outstanding on the date notice is given to redeem the Senior Notes and plus accrued and unpaid interest to the redemption date. If a change of control, as defined in the indenture governing the Senior Notes, were to occur, the Company would be obligated to make an offer to purchase the Senior Notes, in whole or in part, at a price equal to 101% of the aggregate principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to the date of purchase. If a change in control were to occur, the Company may not have the financial resources to repay all of its obligations under the Senior Notes.

On December 13, 2006, the Company purchased \$12 million aggregate principal amount of Senior Notes outstanding, and paid accrued interest of approximately \$600,000, from an existing bond holder at 92% of face value. The Company obtained the \$11 million to re-purchase such Senior Notes from proceeds under its credit facility with Sowood Commodity Partners Fund LP ("Sowood") (see Note 5). The purchase of the \$12 million aggregate principal amount of Senior Notes resulted in the Company recording a gain on early extinguishment of debt of approximately \$400,000, which is net of the write-off of approximately \$600,000, relating to a pro rata portion of the original issue discount of 97.5% on the Senior Notes and amortized debt issuance costs. The \$400,000 was recorded as interest income in the consolidated statement of operations for the three and six months ended December 31, 2006.

Holdings is the issuer of the Senior Notes and has no significant independent operations. Holdings' only significant assets and liabilities are the indirect ownership of the stock of MxEnergy Inc. and MxEnergy Electric Inc., the Senior Notes and related interest expense and interest rate swaps (see "Interest Rate Swaps" below for more information). Each of Holdings' domestic subsidiaries have jointly and severally, fully and unconditionally guaranteed the Senior Notes on a senior unsecured basis. Holdings has only one foreign subsidiary, which is not material to the consolidated financial position or operations of the Company. On November 3, 2006, the Company filed a Registration Statement on Form S-4 to register an exchange offer for \$190 million aggregate principal amount of Senior Notes with like principal amount of Senior Notes that have been registered under the Securities Act of 1933, as amended, with the Securities and Exchange Commission (the "SEC"). On January 17, 2007, the Company filed Amendment No. 1 to the Registration Statement on Form S-4 (as amended, the "Registration Statement") with the SEC. As of February 14, 2007, the Registration Statement on Form S-4 had not been declared effective.

Interest Rate Swaps

In August 2006, the Company entered into interest rate swaps to hedge the floating rate interest expense on the Senior Notes. The swaps are fixed-for-floating and settle against the six month LIBOR rate. The fixed rates under the swaps range from 5.68% to 5.72% per annum. The total notional amount of the interest rate swaps is \$130 million with an average term of approximately four years. None of the interest rate swaps has been designated as a hedge under SFAS No. 133; accordingly, changes in the market value of the swaps have been and will continue to be charged to interest expense. The carrying value of the interest rate swaps at December 31, 2006 is approximately \$(2.4) million and is included in unrealized losses from risk management activities on the condensed consolidated balance sheet.

Revolving Credit Facilities

Through December 2005, the EMA with VPEN provided, among other things, loans to the Company based on the level of its trade receivables and inventories. The terms of the loans varied but were generally due in either 60-day or 300-day increments for receivables and inventory. Inventory loans accrued interest at prime for the duration of the loan. Accounts receivable and extended invoice loans accrued interest at prime for the earlier of (i) 60 days or (ii) the margin withdrawal date; thereafter the rate is prime plus 2% per annum.

In addition to the loans, the EMA provided for borrowings of up to \$6,500,000 (including third party guarantees) which were payable upon expiration of the EMA and bore interest at a rate of 3% per annum. These funds were used as collateral for letters of credit or surety bonds issued to various utilities and regulatory agencies.

There were no borrowings under the EMA at December 31, 2006, June 30, 2006 and December 31, 2005. The loans and the borrowings under the EMA were secured by a first lien on substantially all assets of the Company.

4. Loans Payable and Long Term Debt (continued)

Interest on borrowings under the EMA during the three and six months ended December 31, 2005 totaled \$875,000 and \$1,514,000, respectively. There was no interest incurred under the EMA during the three and six months ended December 31, 2006. Administrative fees and other volumetric based expenses were also incurred under the EMA.

In December 2005, the Company's principal operating subsidiaries entered into a three-year committed credit agreement with a banking syndicate (the "Old Credit Agreement"). The Old Credit Agreement, which replaced the financing component of the EMA with VPEM, provided for revolving working capital borrowing or issuance of letters of credit up to \$100 million. The availability of letters of credit and advances under the Old Credit Agreement were limited by a borrowing base consisting primarily of the Company's unrestricted cash, accounts receivables and natural gas inventories. Letters of credit issued under the Old Credit Agreement were charged fees of 1.50% per annum, while loans bore interest at prime plus 0.375% per annum or at the Company's option, LIBOR plus 1.625% per annum. Commitment fees were payable on the unused portion of the Old Credit Agreement at 0.375% per annum. As of December 31, 2005, \$41.5 million was outstanding under the Old Credit Agreement. No amounts were outstanding under the Old Credit Agreement as of December 31, 2006 and June 30, 2006.

In connection with the Acquisition, on August 1, 2006, the Company amended and restated its Old Credit Agreement (the "New Credit Agreement"). The New Credit Agreement provides up to \$280 million (which may be increased to \$400 million under certain circumstances) and is secured by a second priority lien on customer contracts and a first priority lien on substantially all of the Company's and its subsidiaries' other existing and future assets. Borrowings under the New Credit Agreement generally bear interest at a fluctuating rate based upon a base rate or a Eurodollar rate plus an applicable margin. The applicable margin for base rate loans ranges from 0.5% to 1.375% per annum and the applicable margin for Eurodollar loans ranges from 1.5% to 2.375% per annum. Letters of credit issued under the New Credit Agreement incur charges ranging from 1.375% to 2% per annum. All outstanding borrowings under the New Credit Agreement are due on December 19, 2008.

As of December 31, 2006, the Company had no amounts outstanding under the New Credit Agreement. As of December 31, 2006, the Company had \$151.3 million in outstanding letters of credit issued under the New Credit Agreement which serve as collateral for the performance risk associated with future delivery of natural gas. Total availability under the New Credit Agreement as of December 31, 2006 was \$27.6 million.

The New Credit Agreement contains customary covenants that restrict certain activities including, among others, limitation on capital expenditures, disposal of property and equipment, additional indebtedness, issuance of capital stock and dividend payments. Financial covenants under the New Credit Agreement include, among others, minimum tangible net worth, minimum working capital and interest coverage, each as defined in the New Credit Agreement. The New Credit Agreement also contains customary events of default. The Company is in compliance with the financial covenants under the New Credit Agreement.

5. Transactions with Related Parties

Credit Agreements with Sowood

In July 2004, Lathi, LLC ("Lathi"), a significant stockholder of the Company, contributed its ownership interest and the financing agreements to Sowood. These financing agreements consisted of a \$12 million line of credit negotiated in November 2003 and a \$9 million term loan facility negotiated in March 2004. Draws under the line of credit bear interest at 9% per annum and are due May 14, 2009. Draws under the term loan facility bore interest at 14% per annum and matured on March 25, 2006.

In July 2006, the Company fully utilized its \$12 million Sowood credit facility to secure letters of credit with pipelines and LDCs prior to closing the Acquisition. On August 1, 2006, the Company repaid the Sowood credit facility with the proceeds of the Bridge Loan. On December 13, 2006, the Company borrowed \$11.0 million under the Sowood credit facility to fund the purchase of \$12 million aggregate principal amount of its Senior Notes (see Note 4).

5. Transactions with Related Parties (continued)

As of December 31, 2006, the Company had \$11.0 million of borrowings outstanding under the Sowood credit facility. At June 30, 2006 and December 31, 2005, there were no amounts outstanding under the Sowood credit facility. Interest on loans from Sowood amounted to approximately \$49,000 and \$0 for the three months ended December 31, 2006 and 2005, respectively, and \$73,000 and \$0 for the six months ended December 31, 2006 and 2005, respectively.

The remaining Sowood financing agreement (as of December 31, 2006) contains operating and financial covenants. These financial and operational covenants require the Company to maintain minimum forward book values, minimum total asset values, minimum qualified accounts and minimum consolidated earnings before interest, taxes, depreciation and amortization. The Company is in compliance with the covenants under the remaining Sowood financing agreement.

Transaction Bonuses

In September 2006, certain members of the Company's management team received cash bonuses in recognition of their work in the Acquisition. Jeffrey Mayer, President and Chief Executive Officer, Carole R. Artman-Hodge, Executive Vice President, and Chaitu Parikh, Vice President, Chief Financial Officer and Assistant Treasurer, received \$250,000, \$150,000 and \$200,000, respectively. Such amounts were recorded as general and administrative expenses in the condensed consolidated statement of operations for the three months and six months ended December 31, 2006.

Legal Services

Daniel Bergstein, a director and significant stockholder of the Company, is a senior partner of Paul, Hastings, Janofsky & Walker LLP ("Paul Hastings"), a law firm which provides legal services to us. During the three months ended December 31, 2006 and 2005, we incurred approximately \$177,000 and \$78,000, respectively, and \$684,000 and \$116,000 during the six months ended December 31, 2006 and 2005, respectively, of legal services provided by Paul Hastings. The Company expects that Paul Hastings will continue to provide legal services in future periods.

6. Commitments

Operating Leases

The Company leases office space under non-cancelable operating leases, which contain escalation clauses and expire between June 2007 and November 2017 subject to extension at the option of the Company. The Company takes into account all escalation clauses when determining the amount of future minimum lease payments. All future minimum lease payments are recognized on a straight-line basis over the minimum lease term. Future annual minimum lease payments under these operating leases are as follows (in thousands):

Fiscal year:	
2007	\$366,000
2008	727,000
2009	810,000
2010	590,000
2011	203,000
Thereafter	<u>1,520,000</u>
Total	<u>\$4,216,000</u>

Other

As of December 31, 2006, the Company had forward physical contracts to purchase a total of 23,349,000 MMBtu of natural gas for the months of January 2007 through December 2009. These contracts have a fixed basis component and a variable component determined based on market at purchase date. The amount of the fixed basis and variable components were \$2.6 million and \$153.1 million at December 31, 2006, respectively. All such contracts are considered normal purchases under SFAS No. 133.

7. Redeemable Convertible Preferred Stock

The Company is authorized to issue 5,000,000 shares of Series A convertible preferred stock ("Preferred Stock"). On June 30, 2004, the Company entered into a Purchase Agreement with affiliates of Charterhouse Group Inc. and Greenhill Capital Partners LLC (collectively, the "Investors") for Preferred Stock. Under the terms of the agreement, the Company issued 1,451,310 shares of Preferred Stock for consideration of \$29,730,000 (net of offering expenses of \$1,270,000 of which \$887,000 was paid to the Investors). The shares were issued at a purchase price of \$21.36 per share. The Company has reserved 1,451,310 common shares issuable upon conversion of the preferred stock.

Holders of the Preferred Stock are entitled to participate in any dividend paid on the Company's common stock on an "as converted" basis. In addition, dividends on the Preferred Stock accrue at a rate of 12% per annum of the purchase price per share if the increase in fair value of the Company's common stock does not provide the holders of the Preferred Stock an internal rate of return of at least 12%. Accrued dividends, if any, are payable in additional shares of Preferred Stock.

The Company has not accrued any dividends on the Preferred Stock for the three and six months ended December 31, 2006, and 2005. Had the holders of the Preferred Stock converted the shares to common stock at December 31, 2006, June 30, 2006 or December 31, 2005 the conversion would have been done on a one-for-one basis as the estimated fair value of the common stock results in an aggregate return greater than the 12% per annum dividend rate. The liquidation preference and conversion features of the Preferred Stock are defined below.

Holders of the Preferred Stock will be entitled to vote on all matters to be voted on by the Company's stockholders and shall vote on an as-converted basis as a single class with the Company's common stockholders.

In the event of liquidation, each holder of Preferred Stock shall be entitled to receive an amount per share of Preferred Stock equal to the greater of:

1. the Convertible Preferred Liquidation Preference defined as the sum of:
 - a. the purchase price per share (as adjusted for any splits, stock dividends, combinations, recapitalization, or other similar event), and
 - b. all dividends accrued or declared and unpaid as of such date on the Preferred Stock, or
2. the amount per share of Preferred Stock (or its common stock equivalent) such holder would have received if it had converted its share of Preferred Stock into shares of the Company's Common Stock immediately prior to a liquidation.

As of December 31, 2006, June 30, 2006 and December 31, 2005, the preferred stockholders do not have a liquidation preference as the estimated fair value of the common stock would provide the holders with a return of greater than 12%.

Each holder of shares of Preferred Stock shall have the right at any time at the option of the holder ("Optional Conversion") to convert the holder's shares of Preferred Stock into the number of fully paid and non-assessable shares of the Company's common stock equal to the product of:

1. the number of shares of Preferred Stock being so converted and
2. the ratio of:
 - a. Purchase Price Per Share to
 - b. the Conversion Price (defined below) then in effect.

7. Redeemable Convertible Preferred Stock (continued)

3. Notwithstanding the foregoing, if the fair market value of the Company's common stock as of the conversion date is at a level that would provide an internal rate of return ("IRR") of less than 12% to the majority of the purchasers of the Preferred Stock on their respective investments then the ratio set forth in clause (2) above shall be the ratio of:
- a. the Convertible Preferred Liquidation Preference for such share to
 - b. the Conversion Price (defined below) then in effect.

The "Conversion Price" shall be set initially at an amount equal to \$21.36 per Preferred Share and shall be subject to certain anti-dilution provisions.

In the event of:

1. an underwritten public offering of shares of the Company at a total offering of not less than \$75 million and at a price per share (adjusted to reflect stock dividends, splits and similar events) not less than 1.5 times the Conversion Price through the first anniversary of the original issue date or 2.0 times the Conversion Price thereafter (a "Qualified Public Offering") or
2. the request of the holders of a majority of the then outstanding shares of the Convertible Preferred Stock voting as a separate class, all of the Preferred Stock will be automatically converted into the Company's common stock on the same basis as provided above under an Optional Conversion.

At any time on or after the fifth anniversary of the issuance of the Preferred Stock, the Company may redeem all but not less than all of the outstanding shares of Preferred Stock in cash at a price per share equal to the Convertible Preferred Liquidation Preference, if the fair market value of the Company's common stock as of the date notice of redemption is at a level that would provide an IRR of not less than 40% to the majority of the purchasers of the Preferred Stock on their respective investments.

The holders of the Preferred Stock will have the right to "put" the Preferred Stock to the Company after the fifth anniversary of the issuance of the Preferred Stock, if the fair market value of the Company's common stock is at a level that would not provide such holders an annualized IRR of at least 25%, at an amount per share equal to the Convertible Preferred Liquidation Preference.

The Company has reflected the redeemable convertible preferred stock outside of the equity section under the provisions of SEC Accounting Series Release 268 (Reg S-X 5-02.28) which require that redeemable equity securities be presented separately from stockholders' equity if they are redeemable at the option of the holder, or at a fixed date at a fixed price, or redemption is otherwise beyond the control of the issuer. This presentation is required even if the likelihood of the redemption event occurring is considered remote. As the Preferred Stock is redeemable at the option of the holder only if the IRR over the five year period from the date of issuance is less than 25%, such amount has been reported separately from stockholders' equity at its fair market value at the date of issuance (\$29 million net of issuance costs). As the Preferred Stock is only contingently redeemable, subsequent adjustment of its carrying value is not necessary until it is probable that the security will become redeemable in accordance with EITF Topic No. "D-98 Redeemable Securities Classification and Measurement." The Company determined it is not probable that that the security will become redeemable as of December 31, 2006, June 30, 2006 and December 31, 2005 as the preferred stockholders do not have a liquidation preference as the IRR in such periods is greater than 25%.

8. Common Stock

Shares Reserved for Redeemable Convertible Preferred Stock

In connection with the Preferred Stock issuance, the Company has reserved 1,451,310 common shares issuable upon conversion of the Preferred Stock (see Note 7).

Options and Warrants

The Company reserved 366,500 shares of common stock as a pool for distribution to employees and non-employees pursuant to the Company's 2001 Incentive Stock Option ("ISO") program. The 2001 ISO was established in February 2001 and approved by the Company's stockholders. The 2001 ISO allows for awards of stock or stock options up to the allocated number of shares in the pool. As of December 31, 2006, 8,600 shares were available under the 2001 ISO for future award.

The Company reserved 400,000 shares of common stock as a pool for distribution to employees and non-employees pursuant to the Company's 2003 ISO. The 2003 ISO was established in November 2003 and approved by the Company's stockholders. The 2003 ISO allows for awards of stock or stock options up to the allocated number of shares in the pool. As of December 31, 2006, 16,080 shares were available under the 2003 ISO for future award.

In November 2005, the board of directors and stockholders approved the MxEnergy Holdings Inc. 2006 Equity Incentive Compensation Plan (the "2006 Plan"). The 2006 Plan allows the Company to grant options, restricted stock, phantom shares, dividend equivalent rights, performance awards or stock appreciation rights, to employees, members of the board of directors, officers, consultants and other service providers. The purpose of the 2006 Plan is to attract and retain qualified employees, consultants and other service providers by providing them with additional incentives and opportunities to participate in the Company's ownership, and to create interest in the success and increased value of the Company. The 2006 Plan is administered by the compensation committee of the board of directors. The committee has the authority to determine and to establish guidelines and to delegate to management the determination of the persons to whom awards are to be granted, the time at which awards will be granted, the number of shares to be represented by each award, and the consideration to be received, if any. The committee also has the power to interpret the 2006 Plan and to create or amend its rules. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant, those option awards generally vest gradually based on three years of continuous service and have ten year contractual terms. 750,000 shares of common stock have been authorized to be issued pursuant to awards under the 2006 Plan. As of December 31, 2006 242,000 shares were available under the 2006 ISO for future award. The adoption of the 2006 Plan has no impact on the 2001 and 2003 ISO.

The fair value of each option award granted subsequent to June 30, 2006, is estimated on the date of grant using a Black-Scholes-Merton option valuation model, which includes assumptions regarding the expected volatility, expected term and interest rate. The Company has determined that it is not practicable to estimate the expected volatility of its share price as it is a non-public company with limited historical stock price data. Expected volatilities are estimated by the Company based on historical realized volatilities of comparable publicly traded company stock prices over a period of time commensurate with the expected term of the option award. The Company utilizes the "shortcut approach" as described in Staff Accounting Bulletin No. 107, an interpretation of SFAS No. 123R, to determine the expected term of option awards. The "shortcut approach" is calculated based on the mid point between the vesting date and the end of the contractual term of the option award. Interest rates are based on the risk free interest rate, determined as the implied yield on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the option award. The Company estimates no dividends when valuing option awards as the Company has never issued dividends and currently does not expect to issue dividends in the future. The Company uses historical data to estimate option award forfeiture rates and such forfeiture rates are further determined based on separately identified employee groups whom are expected to have similar behavior patterns. Compensation expense for option awards subject to graded vesting is recognized based on the accelerated attribution method as specified in SFAS No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans".

8. Common Stock (continued)

During the three and six months ended December 31, 2006, the Company granted 508,000 of stock option awards to employees under the 2006 Plan. The total 508,000 of stock option awards vest gradually over a three-year period and have a weighted average contractual life of ten years. The Company expects to record approximately \$5.8 million of compensation expense as a result of these stock option awards, of which \$0.5 million (.3 million net of tax) was recorded in general and administrative expenses in the condensed consolidated statement of operations during the three and six months ended December 31, 2006. The Company expects to record approximately \$1.9 million, \$2.3 million, \$0.9 million and \$0.2 million, during the remainder of fiscal year 2007, fiscal year 2008, fiscal year 2009 and fiscal year 2010, respectively, relating to the stock option awards granted during the three and six months ended December 31, 2006.

The Company received cash of \$10,000 as a result of stock option awards exercised during the three and six months ended December 31, 2006. The Company has recorded a tax benefit of \$415,700 during the six months ended December 31, 2006, based on the intrinsic value of the stock option awards exercised.

The following is a summary of all award activity for the three and six months ended December 31, 2006. There was no award activity for the three months ended September 30, 2006:

	Number of Awards	Weighted- Average Exercise Price
Outstanding at June 30, 2006.....	2,538,106	\$10.77
Granted	508,000	42.90
Exercised	10,000	1.00
Forfeited	18,100	16.93
Expired	—	—
Outstanding at December 31, 2006.....	<u>3,018,006</u>	<u>16.17</u>
Weighted average fair value of grants during the year.....		\$12.31
	\$60.4	
Total intrinsic value of awards outstanding at December 31, 2006		million
Total fair value of awards vested during the three and six months ended December 31, 2006 (no awards vested during the three months ended September 30, 2006).		\$0.6 million

Exercise Price	2006		
	Number of Awards Outstanding	Number of Awards Exercisable	Weighted Average Contractual Life Remaining
\$1.00	110,000	110,000	5.2 Years
2.16	132,450	132,450	0.7 Years
3.72-5.35.....	110,000	110,000	3.0 Years
6.99-9.12.....	1,220,163	1,189,997	2.4 Years
11.64-15.00.....	562,573	559,573	1.9 Years
21.50-25.00.....	238,020	163,513	7.3 Years
27.50-32.50.....	136,800	47,433	8.4 Years
46.57-46.83.....	508,000	-	9.9 Years
	<u>3,018,006</u>	<u>2,312,966</u>	

The weighted average remaining term for the awards outstanding and exercisable at December 31, 2006 was four and three years, respectively. The weighted average exercise price of awards exercisable at December 31, 2006 was \$ 9.77.

8. Common Stock (continued)

As of December 31, 2006, the 3,018,006 of awards outstanding were comprised of 508,000 stock option awards granted during fiscal year 2007 and accounted for under the provisions of SFAS No. 123R, 101,000 warrants granted prior to June 30, 2006 and accounted for using variable plan accounting (see Note 2) and 2,409,006 stock option awards and warrants granted prior to June 30, 2006 and accounted for under APB No. 25.

9. Segment Information

The Company classifies its business interests into three reportable segments: residential and small commercial natural gas, mid-market commercial natural gas, and electricity. The Company has added the mid-market commercial natural gas segment with the acquisition of customers from Castle during fiscal year 2006 (see Note 3).

Information as to the operations of the Company in each of its business segments is set forth below based on the nature of the products and services provided. The Company evaluates performance based on several factors, of which the primary financial measure is gross profit adjusted to exclude the effect of any unrealized gains or losses from risk management activities.

Sales for the three and six months ended December 31 (in thousands):

	Three months		Six months	
	2006	2005	2006	2005
Residential and small commercial natural gas	\$194,793	\$98,966	\$257,807	\$125,832
Mid market commercial natural gas	9,412	14,481	15,311	14,481
Electricity	2,737	3,470	8,114	9,470
Total	<u>\$206,942</u>	<u>\$116,917</u>	<u>\$281,232</u>	<u>\$149,783</u>

Cost of Goods Sold for the three and six months ended December 31 (excluding effect of unrealized gains or losses from risk management activities) (in thousands):

	Three months		Six months	
	2006	2005	2006	2005
Residential and small commercial natural gas(a)	\$170,682	\$86,956	\$222,525	\$104,937
Mid market commercial natural gas(a)	8,755	14,318	13,639	14,318
Electricity(a)	1,486	2,356	5,926	8,124
Total	<u>\$180,923</u>	<u>\$103,630</u>	<u>\$242,090</u>	<u>\$127,379</u>

Gross profit, excluding the effect of unrealized gains or losses from risk management activities, for the three and six months ended December 31 (in thousands):

	Three months		Six months	
	2006	2005	2006	2005
Residential and small commercial natural gas(a)	\$24,111	\$12,010	\$35,282	\$20,895
Mid market commercial natural gas(a)	657	163	1,672	163
Electricity(a)	1,251	1,114	2,188	1,346
Total	<u>\$26,019</u>	<u>\$13,287</u>	<u>\$39,142</u>	<u>\$22,404</u>

(a) Cost of goods sold and gross profit include cost of natural gas sold and realized gains from risk management activities during the period.

9. Segment Information (continued)

Total segment gross profit is reconciled to (loss) income before income tax benefit (expense) for the three months ended December 31, 2006 and 2005 as follows (in thousands):

	Three months		Six months	
	2006	2005	2006	2005
Total segment gross profit.....	\$26,019	\$13,287	\$39,142	\$22,404
Unrealized (losses) gains from risk management activities	(335)	(87,019)	(47,940)	31,736
Operating expenses.....	(22,738)	(8,121)	(42,801)	(15,967)
Interest expense—net	(8,705)	(909)	(17,340)	(1,325)
(Loss) income before income tax benefit (expense).....	<u>\$(5,759)</u>	<u>\$(82,762)</u>	<u>\$(68,939)</u>	<u>\$36,848</u>

Total assets for the segments, representing only customer acquisition costs, are outlined as follows (in thousands):

	Residential and small commercial natural gas	Mid market commercial natural gas	Electricity	Total
	December 31, 2006			
Customer acquisition costs	\$68,597	\$3,803	\$1,124	\$73,524
Accumulated amortization.....	(25,979)	(1,438)	(903)	(28,320)
Net customer costs	\$42,618	\$2,365	\$221	\$45,204
December 31, 2005				
Customer acquisition costs	\$22,843	\$3,716	\$1,009	\$27,568
Accumulated amortization.....	<u>(14,764)</u>	<u>(618)</u>	<u>(531)</u>	<u>(15,914)</u>
Net customer costs	<u>\$8,078</u>	<u>\$3,098</u>	<u>\$478</u>	<u>\$11,654</u>

10. Condensed Consolidating Financial Information

The Company consummated the Acquisition for aggregate consideration of approximately \$126.0 million. The Acquisition was initially financed by utilizing the proceeds from the Bridge Loan which was repaid on August 4, 2006 from the proceeds received by the issuance of \$190 million aggregate principal amount of Senior Notes (see Note 4). Each of the following wholly owned domestic subsidiaries of Holdings (the "Guarantors") jointly, severally and unconditionally guaranteed the Senior Notes on a senior unsecured basis:

- MxEnergy Capital Holdings Corp.
- MxEnergy Capital Corp.
- ,Online Choice Inc.
- MxEnergy Gas Capital Holdings Corp.
- MxEnergy Gas Capital Corp.
- MxEnergy Inc.
- MxEnergy Electric Capital Holdings Corp.
- MxEnergy Electric Capital Corp.

10. Condensed Consolidating Financial Information (continued)

- MxEnergy Electric Inc.
- Total Gas & Electricity (PA) Inc., d/b/a/ MxEnergy Electric (PA)
- MxEnergy Services Inc.
- Infometer.com Inc.

Non-guarantor subsidiaries ("Non-guarantors") include MxEnergy (Canada) Ltd.

The following information presents condensed consolidating balance sheets as of December 31, 2006, December 31, 2005 and June 30, 2006, the related condensed consolidating statements of operations for the three and six months ended December 31, 2006 and 2005, the consolidated statements of cash flows for the six months ended December 31, 2006 and 2005 for the combined Guarantors and each of the Non-guarantors, and elimination entries necessary to consolidate the entities comprising the condensed consolidated financial statements.

MxEnergy Holdings Inc.
Consolidating Balance Sheet
December 31, 2006

	MxEnergy Holdings Inc.	MxEnergy (Canada) Ltd.	Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash.....	\$—	\$63	\$12,125		\$12,188
Due from intercompany.....	48,812	—	—	(48,812)	—
Restricted cash and short term investments	—	—	325		325
Accounts receivable, net of allowances	—	107	124,193		124,300
Inventories.....	—	—	71,034		71,034
Current portion of unrealized gains from risk management activities.....	—	—	7		7
Income taxes receivable.....	12,769	—	—		12,769
Deferred taxes	16,866	—	16,866	(16,866)	16,866
Other current assets.....	—	101	18,084		18,185
Margin deposit on hedge facility	—	—	25,000		25,000
Total current assets	78,447	271	267,634	(65,678)	280,674
Long-term investments	127,578			(127,578)	—
Customer acquisition costs, net of accumulated amortization	—	32	45,172		45,204
Fixed assets, net	—	—	19,570		19,570
Deferred taxes	12,087	—	12,087	(12,087)	12,087
Other assets, net	4,656	—	4,726		9,382
Total assets	<u>\$222,768</u>	<u>\$303</u>	<u>\$349,189</u>	<u>\$(205,343)</u>	<u>366,917</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)					
Current liabilities:					
Accounts payable and accrued expenses.....	\$10,223	\$242	\$31,094		\$41,559
Accrued purchases	—	1	63,472		63,473
Due to intercompany.....		1,103	47,709	(48,812)	—
Unrealized losses from risk management activities	517	—	36,414		36,931
Total current liabilities.....	10,740	1,346	178,689	(48,812)	141,963
Unrealized losses from risk management activities	1,882	—	13,746		15,628
Long-term debt.....	184,958	—	—		184,958
Total liabilities	197,580	1,346	192,435	(48,812)	342,549
Redeemable convertible preferred stock	29,357	—	—		29,357
Commitments.....					
Stockholders' Equity (Deficit)					
Common stock	34	1	—	(1)	34
Additional paid-in-capital.....	18,376	—	—		18,376
Contributed capital.....	819	—	167,917	(168,736)	—
Unearned stock compensation.....	(44)	—	—		(44)
Accumulated other comprehensive loss.....		(1)	—		(1)
Retained deficit	(23,354)	(1,043)	(11,153)	12,196	(23,354)
Total stockholders' equity (deficit).....	(4,169)	(1,043)	156,764	(156,541)	(4,989)
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	<u>\$222,768</u>	<u>\$303</u>	<u>\$349,199</u>	<u>\$(205,353)</u>	<u>\$366,917</u>

MxEnergy Holdings Inc.
Consolidating Balance Sheet
December 31, 2005

	<u>MxEnergy Holdings Inc.</u>	<u>MxEnergy (Canada) Ltd.</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets					
Current assets:					
Cash.....	\$—	\$276	\$283	\$—	\$559
Due from intercompany.....	—	—	125,868	(125,868)	—
Restricted cash and short term investments	—	—	16,825	—	16,825
Accounts receivable, net of allowances	—	120	83,237	—	83,357
Inventories.....	—	—	31,409	—	31,409
Current portion of unrealized gains from risk management activities.....	—	—	90,155	—	90,155
Income taxes receivable.....	4,363	—	—	—	4,363
Other current assets.....	—	49	4,800	—	4,849
Total current assets	<u>4,363</u>	<u>445</u>	<u>352,577</u>	<u>(125,868)</u>	<u>231,517</u>
Long-term investments	288,753	—	—	(288,753)	—
Customer acquisition costs, net of accumulated amortization	—	139	11,516	—	11,655
Fixed assets, net	—	—	6,649	—	6,649
Unrealized gains from risk management activities	—	—	21,447	—	21,447
Other assets, net	—	—	2,159	—	2,159
Total assets	<u>\$293,116</u>	<u>\$584</u>	<u>\$394,348</u>	<u>\$(414,621)</u>	<u>\$273,427</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)					
Current liabilities:					
Accounts payable and accrued expenses.....	\$—	\$240	\$17,982	\$—	\$18,222
Accrued purchases	—	180	44,178	—	44,358
Due to intercompany.....	125,101	767	—	(125,868)	—
Loans payable	—	—	41,500	—	41,500
Current portion of unrealized losses from risk management activities	—	—	2,119	—	2,119
Deferred income taxes	33,678	—	33,678	(33,678)	33,678
Total current liabilities.....	<u>158,779</u>	<u>1,187</u>	<u>139,457</u>	<u>(159,546)</u>	<u>139,877</u>
Unrealized losses from risk management activities	—	—	63	—	63
Deferred income taxes	6,229	—	6,229	(6,229)	6,229
Total liabilities	<u>165,008</u>	<u>1,187</u>	<u>145,749</u>	<u>(165,775)</u>	<u>146,169</u>
Redeemable convertible preferred stock	29,357	—	—	—	29,357
Commitments	—	—	—	—	—
Stockholders' Equity (Deficit)					
Common stock	33	1	—	(1)	33
Additional paid-in-capital	18,451	—	—	—	18,451
Contributed capital.....	819	—	167,098	(167,917)	—
Unearned stock compensation.....	(73)	—	—	—	(73)
Accumulated other comprehensive loss	—	(19)	—	—	(19)
Retained earnings (deficit).....	79,509	(585)	81,514	(80,929)	79,509
Total stockholders' equity (deficit).....	<u>98,739</u>	<u>(603)</u>	<u>248,612</u>	<u>(248,847)</u>	<u>97,901</u>
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit).....	<u>\$293,104</u>	<u>\$584</u>	<u>\$394,361</u>	<u>\$(414,622)</u>	<u>\$273,427</u>

MxEnergy Holdings Inc.
Consolidating Balance Sheet
June 30, 2006

	<u>MxEnergy Holdings Inc.</u>	<u>MxEnergy (Canada) Ltd.</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets					
Current assets:					
Cash.....	\$—	\$146	\$5,947		\$6,093
Due from intercompany.....			135,489	(135,489)	—
Restricted cash and short term investments	—	—	427		427
Accounts receivable, net of allowances.....	—	54	31,521		31,575
Inventories.....	—	—	18,499		18,499
Current portion of unrealized gains from risk management activities.....	—	—	1,664		1,664
Income taxes receivable.....	5,535	—	—		5,535
Deferred taxes	1,046	—	1,046	(1,046)	1,046
Other current assets.....	—	72	2,606		2,678
Total current assets	6,581	272	197,199	(136,535)	67,517
Long-term investments	183,954			(183,954)	—
Customer acquisition costs, net of accumulated amortization	—	89	10,733		10,822
Fixed assets, net	—	—	8,637		8,637
Unrealized gains from risk management activities	—	—	1,272		1,272
Deferred taxes	3,395	—	3,395	(3,395)	3,395
Deposit on SESCO asset purchase agreement and other costs.....	3,348	—	—		3,348
Other assets, net	2,851	—	127		2,978
Total assets	\$200,129	\$361	\$221,363	\$(323,884)	\$97,969
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)					
Current liabilities:					
Accounts payable and accrued expenses.....	\$—	\$127	\$14,771		\$14,898
Accrued purchases	—	—	14,544		14,544
Due to intercompany.....	134,387	1,103	—	(135,490)	—
Unrealized losses from risk management activities	132	—	320		452
Total current liabilities.....	134,519	1,230	29,635	(135,490)	29,894
Unrealized losses from risk management activities	—	—	3,325		3,325
Total liabilities	134,519	1,230	32,960	(135,490)	33,219
Redeemable convertible preferred stock	29,357	—	—		29,357
Commitments.....	—	—	—		—
Stockholders' Equity (Deficit)					
Common stock	34	1	—	(1)	34
Additional paid-in-capital	17,355	—	—		17,355
Contributed capital.....	819	—	167,098	(167,917)	—
Unearned stock compensation	(115)	—	—		(115)
Accumulated other comprehensive loss		(40)	—		(40)
Retained earnings (deficit).....	18,159	(829)	21,306	(20,477)	18,159
Total stockholders' equity (deficit).....	36,252	(868)	188,404	(188,395)	35,393
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	\$200,128	\$362	\$221,364	\$(323,885)	\$97,969

MxEnergy Holdings Inc.
Consolidating Statement of Operations
For The Three Months Ended December 31, 2006

	<u>MxEnergy Holdings Inc.</u>	<u>MxEnergy (Canada) Ltd.</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Sales of natural gas and electricity	\$—	\$316	\$206,626		\$206,942
Cost of goods sold (excluding depreciation and amortization)					
Cost of natural gas and electricity sold.....	—	300	165,764		166,064
Realized losses from risk management activities.....	—	—	14,859	—	14,859
Unrealized losses from risk management activities....	—	—	335		335
	<u>—</u>	<u>300</u>	<u>180,958</u>	<u>—</u>	<u>181,258</u>
Gross profit	—	16	25,668	—	25,684
Operating expenses:					
General and administrative expenses	(26)	139	13,856		13,969
Advertising and marketing expenses.....	—	—	2,012	—	2,012
Reserves and discounts	—	—	590		590
Depreciation and amortization.....	—	27	6,140		6,167
Equity in operations of consolidated subsidiaries	(260)	—	—	260	—
Total operating expenses	<u>(286)</u>	<u>166</u>	<u>22,598</u>	<u>260</u>	<u>22,738</u>
Operating profit (loss).....	286	(150)	3,070	(260)	2,946
Interest expense, net.....	6,318	—	2,387	—	8,705
(Loss) income before income tax benefit (expense)	(6,032)	(150)	683	(260)	(5,759)
Income tax benefit (expense).....	1,829	—	(272)	272	1,829
Net (loss) income	<u>(4,203)</u>	<u>(150)</u>	<u>411</u>	<u>12</u>	<u>(3,930)</u>

MxEnergy Holdings Inc.
Consolidating Statement of Operations
For The Three months ended December 31, 2005

	MxEnergy Holdings Inc.	MxEnergy (Canada) Ltd.	Guarantor Subsidiaries	Eliminations	Consolidated
Sales of natural gas and electricity	\$—	308	\$116,609		\$116,917
Cost of goods sold (excluding depreciation and amortization)					
Cost of natural gas and electricity sold.....	—	637	147,718		148,355
Realized gains from risk management activities...	—	—	(44,725)	—	(44,725)
Unrealized losses from risk management activities	—	—	87,019		87,019
	—	637	190,012		190,649
Gross loss	—	(329)	(73,403)		(73,732)
Operating expenses:					
General and administrative expenses	(418)	20	4,547		4,149
Advertising and marketing expenses.....	—		644	—	644
Reserves and discounts	—	—	753		753
Depreciation and amortization.....	—	32	2,543		2,575
Equity in operations of consolidated subsidiaries	49,554			(49,554)	—
Total operating expenses	49,136	52	8,487	(49,554)	8,121
Operating (loss) profit.....	(49,136)	(381)	(81,890)	49,554	(81,853)
Interest expense, net.....	155	—	754	—	909
Loss before income tax benefit (expense)	(49,291)	(381)	(82,644)	49,554	(82,762)
Income tax benefit.....	33,523	—	33,471	(33,471)	33,523
Net loss	(15,768)	(381)	(49,173)	16,083	(49,239)

MxEnergy Holdings Inc.
Consolidating Statement of Operations
For The Six Months Ended December 31, 2006

	<u>MxEnergy Holdings Inc.</u>	<u>MxEnergy (Canada) Ltd.</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Sales of natural gas and electricity	\$—	\$660	\$280,572		\$281,232
Cost of goods sold (excluding depreciation and amortization)					
Cost of natural gas and electricity sold.....	—	641	222,417		223,058
Realized losses from risk management activities.....	—	—	19,032	—	19,032
Unrealized losses from risk management activities....	—	—	47,940		47,940
	<u>—</u>	<u>641</u>	<u>289,389</u>	<u>—</u>	<u>290,030</u>
Gross (loss) profit	—	19	(8,817)	—	(8,798)
Operating expenses:					
General and administrative expenses	1,265	178	24,355		25,798
Advertising and marketing expenses.....	—	—	2,845	—	2,845
Reserves and discounts	—	—	1,481		1,481
Depreciation and amortization.....	—	55	12,622		12,677
Equity in operations of consolidated subsidiaries	<u>32,673</u>	<u>—</u>	<u>—</u>	<u>(32,673)</u>	<u>—</u>
Total operating expenses	<u>33,938</u>	<u>233</u>	<u>41,303</u>	<u>(32,673)</u>	<u>42,801</u>
Operating loss	(33,938)	(214)	(50,120)	32,673	(51,599)
Interest expense, net.....	<u>13,550</u>	<u>—</u>	<u>3,790</u>	<u>—</u>	<u>17,340</u>
Loss before income tax benefit.....	(47,488)	(214)	(53,910)	32,673	(68,939)
Income tax benefit.....	<u>27,426</u>	<u>—</u>	<u>21,451</u>	<u>(21,451)</u>	<u>27,426</u>
Net loss.....	<u>(20,062)</u>	<u>(214)</u>	<u>(32,459)</u>	<u>11,222</u>	<u>(41,513)</u>

MxEnergy Holdings Inc.
Consolidating Statement of Operations
For The Six months ended December 31, 2005

	<u>MxEnergy Holdings Inc.</u>	<u>MxEnergy (Canada) Ltd.</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Sales of natural gas and electricity	\$—	\$604	\$149,179		\$149,783
Cost of goods sold (excluding depreciation and amortization)					
Cost of natural gas and electricity sold.....	—	958	192,145		193,103
Realized gains from risk management activities...	—	—	(65,724)	—	(65,724)
Unrealized gains from risk management activities	—	—	(31,736)		(31,736)
	<u>—</u>	<u>958</u>	<u>94,685</u>		<u>95,643</u>
Gross (loss) profit	—	(354)	54,494		54,140
Operating expenses:					
General and administrative expenses	553	(13)	9,202		9,742
Advertising and marketing expenses.....	—		993	—	993
Reserves and discounts	—	—	1,019		1,019
Depreciation and amortization.....	—	52	4,161		4,213
Equity in operations of consolidated subsidiaries.....	(21,896)			21,896	—
Total operating expenses	<u>(21,343)</u>	<u>39</u>	<u>15,375</u>	<u>21,896</u>	<u>15,967</u>
Operating (loss) profit.....	21,343	(393)	39,119	(21,896)	38,173
Interest expense, net.....	<u>242</u>	<u>—</u>	<u>1,083</u>	<u>—</u>	<u>1,325</u>
(Loss) income before income tax benefit (expense)	21,101	(393)	38,036	(21,896)	36,848
Income tax benefit (expense).....	<u>(15,281)</u>	<u>—</u>	<u>(15,746)</u>	<u>15,746</u>	<u>(15,281)</u>
Net (loss) income	<u><u>5,820</u></u>	<u><u>(393)</u></u>	<u><u>22,290</u></u>	<u><u>(6,150)</u></u>	<u><u>21,567</u></u>

MxEnergy Holdings Inc.
Consolidating Statement of Cash Flows
For The Six Months Ended December 31, 2006

	MxEnergy Holdings Inc.	MxEnergy (Canada) Ltd.	Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities					
Net loss	\$(20,062)	\$(214)	\$(32,459)	\$11,222	\$(41,513)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:					
Unrealized losses from risk management activities			47,940		47,940
Stock compensation expense	1,265		—		1,265
Depreciation and amortization		55	12,622		12,677
Deferred tax benefit	(24,512)		(24,512)	24,512	(24,512)
Unrealized losses on interest rate swaps and amortization of deferred financing fees	3,327		1,414		4,741
Equity in operations of consolidated subsidiaries	32,673			(32,673)	—
Changes in assets and liabilities, net of effects of acquisition:					
Net outflow in restricted cash and short term investments			102		102
Accounts receivable		(53)	(75,646)		(75,699)
Inventories			(16,199)		(16,199)
Income taxes receivable	(7,234)				(7,234)
Margin deposit on hedge facility			(25,000)		(25,000)
Option premiums			1,834		1,834
Other assets	(2,772)	(27)	7,261		4,462
Accounts payable and accrued expenses	(73,395)	156	106,756	40,985	74,502
Net cash (used in) provided by operating activities	(90,710)	(83)	4,113	44,046	(42,634)
Investing activities					
Long-term investments	44,046			(44,046)	—
Purchase of assets of Shell Energy Services Company L.L.C. ("SESCO")	(126,044)		—		(126,044)
Deposit on SESCo asset purchase agreement and other capitalized costs	3,348		—		3,348
Customer acquisition costs			(2,388)		(2,388)
Purchases of fixed assets			(1,393)		(1,393)
Net cash used in investing activities	(78,650)	—	(3,781)	(44,046)	(126,477)
Financing activities					
Debt financing costs	(3,994)		(5,194)		(9,188)
Proceeds from Sowood credit facility			23,040		23,040
Repayment of Sowood credit facility			(12,000)		(12,000)
Proceeds from bridge loan	190,000		—		190,000
Repayment of bridge loan	(190,000)		—		(190,000)
Repurchase of senior notes	(11,723)				(11,723)
Proceeds from senior notes	185,250				185,250
Purchase of common stock for cancellation	(173)		—		(173)
Net cash provided by financing activities	169,360	—	5,846	—	175,206
Net (decrease) increase in cash		(83)	6,178		6,095
Cash at beginning of period	—	146	5,947		6,093
Cash at end of period	\$—	\$63	\$12,125	\$—	\$12,188

MxEnergy Holdings Inc.
Consolidating Statement of Cash Flows
For The Six Months Ended December 31, 2005

	MxEnergy Holdings Inc.	MxEnergy (Canada) Ltd.	Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities					
Net (loss) income	\$5,821	\$(393)	\$22,288	\$(6,149)	\$21,567
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Unrealized gains from risk management activities			(31,736)		(31,736)
Stock compensation expense	553				553
Depreciation and amortization.....		52	4,161		4,213
Deferred tax expense	11,583		11,583	(11,583)	11,583
Amortization of deferred financing fees	194		48		242
Equity in operations of consolidated subsidiaries	(21,896)			21,896	—
Changes in assets and liabilities, net of effects of acquisition:					
Net inflow in restricted cash and short term investments.....			(9,444)		(9,444)
Accounts receivable.....		22	(64,806)		(64,784)
Inventories.....			(15,596)		(15,596)
Income taxes receivable.....	(4,363)				(4,363)
Other assets			(665)		(665)
Accounts payable and accrued expenses.....	19,802	314	21,526	(15,734)	25,908
Net cash (used in) provided by operating activities	11,694	(5)	(62,641)	(11,570)	(62,522)
Investing activities					
Long-term investments	(11,570)			11,570	—
Purchase of customer portfolio from Castle Power LLC			(3,150)		(3,150)
Customer acquisition costs		(15)	(4,528)		(4,543)
Purchases of fixed assets.....			(2,853)		(2,853)
Net cash used in investing activities.....	(11,570)	(15)	(10,531)	11,570	(10,546)
Financing activities					
Proceeds from loans.....			138,008		138,008
Repayments of loans.....			(112,887)		(112,887)
Repayments of long term debt.....			(5,000)		(5,000)
Purchase of common stock for cancellation.....	(124)		—		(124)
Net cash (used in) provided by financing activities	(124)	—	20,121		19,997
Net decrease in cash.....	0	(20)	(53,051)		(53,071)
Cash at beginning of period.....	—	296	53,334		53,630
Cash at end of period	\$0	\$276	\$283	\$—	\$559

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

Except as the context otherwise requires, references in this Quarterly Report to "MxEnergy," "the Company," "we," "us," "our," or similar terms refer to MxEnergy Holdings Inc., a Delaware corporation, and its subsidiaries.

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report.

Overview

We are a retail energy marketing company primarily engaged in the marketing and sale of natural gas and electricity to residential and commercial accounts throughout the eastern half of the United States and in Ontario, Canada. We serve a diverse portfolio of customers across several local distribution company, or LDC, markets with both fixed rate and variable rate contracts. This diversification in customer segment, geography, and sales product helps to mitigate our risk from volatility in market prices and weather-related demand. We intend to maximize operating income through continued customer growth, improved operational performance, opportunistic acquisitions and the efficient procurement and risk management of our commodity supply positions. As natural gas accounts for over 98% of our sales, the operating results of the electricity segment, which was initiated in 2004, are not discussed herein. On November 1, 2005, MxEnergy acquired certain natural gas customer contracts of Castle Power LLC, or Castle. In connection with such acquisition, MxEnergy added the mid-market commercial natural gas segment (see our consolidated financial statements included elsewhere in this Quarterly Report for more information). As the mid-market commercial natural gas segment was established in fiscal year 2006 and accounts for approximately 10% and 5% of our total sales for the year ended June 30, 2006 and the three months and six months ended December 31, 2006, respectively, the operating results of such segment are not discussed herein.

MxEnergy was formed in 1999 as a retail energy marketer. As of December 31, 2006, we served approximately 641,300 residential customer equivalents, or RCEs (each reflecting 100 MMBtus of annual gas consumption), across 28 LDC gas markets and six electricity market areas in 12 states and Ontario, Canada. The business has expanded through a combination of organic growth and acquisitions. Over the past three years, we acquired substantially all of the assets of Shell Energy Services Company L.L.C. (such transaction is referred to herein as the SESCO acquisition), a portfolio of 315,000 natural gas RCEs throughout Georgia and Ohio, the shares of Total Gas & Electric, Inc., or TG&E, a portfolio of 103,000 gas and electricity RCEs throughout New York and New Jersey, and a portfolio of 2,200 mid-market commercial customers (representing approximately 53,000 RCEs) from Castle also based in New York and New Jersey. In addition to SESCO, TG&E and Castle, we have successfully completed the acquisition of four customer portfolios since our inception. SESCO's operating activities included Percent of Income Payment Plan, or PIPP, accounts for the three and six months ended December 31, 2005. The PIPP account contract expired on March 31, 2006 with the Dominion of East Ohio utility and is not expected to recur. SESCO's PIPP accounts represented approximately 142,500 RCEs at March 31, 2006. We did not acquire any PIPP accounts in connection with the SESCO acquisition.

Our financial performance is affected by many factors. Approximately 61% of our RCEs are billed for commodity charges directly by the LDC on our behalf. We are exposed to credit risk from utilities that collect and remit customer payments as well as from a number of customers that pay us directly. Our operating results would be negatively affected by defaults in such payments. Approximately 52% of our RCEs are guaranteed by LDCs, the vast majority of which are investor-owned utilities with an investment grade rating from Moody's or Standard & Poor's. The remaining 48% of our annual volume is exposed to credit risk of the end use customer.

Our risk management strategy is to hedge 100% of our forecasted volumes on our fixed price customer contracts. The sufficiency of such hedges is affected by unanticipated attrition and by changes in weather-related volumetric demand. Average in-contract customer attrition for the fiscal years 2003 through 2006 was approximately 23%. Attrition for the three months and six months ended December 31, 2006 was approximately 7% and 15%, respectively, resulting in an annualized rate of 28% and 30%, respectively. For both the three months and six months ended December 31, 2006, attrition includes customer losses experienced in connection with the SESCO acquisition as well as challenging pricing and market conditions. January 2007 results continue to be impacted by above average annualized attrition of approximately 34%. The loss of customer accounts was primarily due to: (i) customer initiated switches, (ii) residential moves and (iii) customer payment defaults. We use historical experience to determine the amount of in-contract attrition to project demand from fixed price customers over the terms of their contracts. If the actual demand from fixed price customers is significantly different from our projection, we may suffer financial

losses if the market price of gas has increased or decreased from the original hedge price. Customer demand is also impacted by weather. We use utility-provided historical, actual or forward projected customer volumes as a basis for our forecasted volumes and mitigate the risk of winter volume fluctuation for some customers by purchasing excess fixed rate hedges by up to 10% of normalized winter projections. Should winter weather demand exceed our weather-normalized projections, we may suffer a negative impact on financial results.

We use both physical instruments and derivative financial instruments to reduce our exposure to fluctuations in the price of natural gas. We account for derivatives under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. SFAS No. 133 requires all derivatives to be carried on the balance sheet at fair value. We enter into physical forward contracts to purchase and sell natural gas and power. Such contracts are derivative financial instruments based on the provisions of SFAS No. 133. As of December 31, 2006, MXenergy had documented that certain of these physical forward purchase and sale contracts met the "normal purchases and normal sales" exception under SFAS No. 133 and accordingly such contracts were not carried on the balance sheet at fair value. All contracts documented for the "normal purchases and normal sales" exception are accounted for as executory contracts with the corresponding purchase and sale recorded for accounting purposes at the time title to the natural gas or power passes. If a derivative is designated as a cash flow hedge, changes in the fair value of the derivative are recorded in accumulated other comprehensive income and recognized as a component of cost of natural gas and electricity sold in the condensed consolidated statements of operations when the hedged item affects earnings. Derivatives that are not designated as hedges or that do not qualify for hedge accounting treatment must be adjusted to fair value through earnings. Since we have not designated any of our derivatives as cash flow hedges, any change in the forward price of natural gas or electricity will be reflected in the statement of operations as unrealized gains or losses from risk management activities. The underlying fixed price contracts that are being hedged do not meet the definition of a derivative under SFAS No. 133 and as a result, the corresponding change in fair value of these customer contracts is not reflected in the statement of operations. The application of this accounting treatment results in earnings volatility.

In addition to the volatility described above, we incur volatility from quarter to quarter associated with gains and losses on settled hedges relating to natural gas in inventory. Inventory is typically purchased from April to October and drawn down from November through March. Since a portion of the inventory is used to satisfy delivery obligations to fixed priced accounts over the winter months, we hedge the associated price risk using NYMEX based derivative contracts. Any gains or losses associated with settled derivative contracts are reflected in the statement of operations as a component of cost of goods sold under the caption "Realized gains or losses from risk management activities." As a portion of these settled hedges are used to mitigate the price risk associated with the inventory purchases, we may experience a timing difference between when the gain or loss on the hedge is recognized in the statement of operations and when the gas is consumed by the customer and sales are recognized.

We rely on utilities to provide billing and collection of receivables from residential and small commercial customers as well as to provide other services. Approximately 52% of our volumetric RCEs are guaranteed by the utilities at a weighted average discount rate of approximately 1%. Should a utility increase the discount or discontinue the guarantee of such receivables, the forecasted margin for the fixed rate contracts currently in place may be reduced. Incorporated into the calculation of our fixed prices are also prevailing billing charges, switching fees, volumetric conversion rates, and other such factors. Though we are advised in advance of future changes in these items through tariff filings and notices by the utilities, ultimate changes in these charges, fees, rates and other factors could take place prior to the termination date of current fixed price contracts and could negatively impact projected margin on these contracts.

We market to new customers using direct mail, internet, telemarketing, and door to door channels. Based on historical experience plus costs associated with specific contracts, our marketing costs for a new customer are estimated and revised from time to time. Should marketing expenses exceed those which we have forecasted, our financial results can be negatively impacted.

In determining the selling price for fixed and variable customers, we target a per unit gross profit rather than a percentage gross margin. The target margin is set in relation to the cost of acquiring new customers with the objective of earning a contribution margin in excess of the acquisition cost of a customer within the first year. We consider all direct variable costs associated with servicing new customers prior to application of the per unit margin. Since we are targeting a per unit gross profit and commodity prices are highly volatile, a gross margin percentage would not be a meaningful indicator of financial performance.

Market and Regulatory

We currently serve natural gas customers in 28 LDC markets in 11 states and Ontario, Canada and electricity in six market areas in two states. Among other things, tariff filings by LDCs for changes in the billing rate to their regulated customers in the markets in which we operate, may significantly impact the viability of our sales and marketing plans and our overall operating and financial results. Although regulatory requirements are determined, administered and monitored by the public utility commission, or PUC, of each state, operating rules and rate filings for each utility are unique. Accordingly, we generally treat each utility distribution territory as a distinct market.

Natural Gas

We provide natural gas to approximately 628,200 RCEs in 28 LDC markets within Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Maryland, New Jersey, New York, Ohio, Pennsylvania and Ontario, Canada. Due to recent and significant decreases in the price of natural gas, a number of LDCs have decreased rates to their regulated customers. Although the impact of these price decreases cannot currently be estimated, they are not anticipated to adversely impact our financial results.

In Ohio, we provide natural gas service to residential and small commercial customers in the Dominion East Ohio Gas, or DEO, Vectren and the Columbia Gas of Ohio service areas. In May 2006, the PUC of Ohio approved the first phase of a plan whereby DEO will exit the merchant function. The first phase was a wholesale auction of the supply associated with the customers served by the utility which took place on August 28, 2006 and was approved by the PUC of Ohio on August 29, 2006. The second phase is anticipated to start by 2008 and will involve the transfer of the utility customers to retail energy marketers. We are taking an active role in the regulatory process for reviewing and implementing rules that will govern phase two of the deregulation plan. While the ultimate outcome of this is unknown, at this point, the process it is not expected to adversely impact our financial results. During January 2007 we obtained our gas marketer license to market natural gas in the Terasen market in British Columbia.

As natural gas accounts for approximately 98% of our sales, our operating results are significantly impacted by the price movement in natural gas. Price volatility in the natural gas market generally exceeds volatility in most energy and other commodity markets. There are various factors that contribute to price volatility in the natural gas market, including basic supply and demand, pipeline capacity, storage capacity and weather. The prices of natural gas during the six months ended December 31, 2006 were at a two-year low, which provides us with both opportunities and challenges. During our recent history we have been able to effectively manage our business through volatile market conditions.

Electricity

We provide electricity to approximately 13,100 RCEs in six market areas within the states of New York and Massachusetts. There are no current rate cases or filings in the states of New York or Massachusetts that are anticipated to impact our financial results.

The SESCO Acquisition and Related Transactions

On August 1, 2006, MXenergy acquired substantially all of the assets of SESCO, a wholly owned subsidiary of Shell Oil Company and retail energy marketer, which as of that date, supplied natural gas to approximately 315,000 residential and small commercial RCEs in the deregulated markets of Georgia and Ohio. In addition to expanding our relationships with customers in two LDC markets we already served in Ohio, the SESCO acquisition also expanded our operations in Ohio to include customers served by Vectren and added Georgia to the list of states in which we operate. The aggregate consideration paid in connection with the purchase equaled \$126.0 million. For more information, see the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report.

As a result of the SESCO acquisition, our customer mix changed. MXenergy's historical percentage of fixed price customers decreased from 70% to 60% after the SESCO acquisition. The higher percentage of variable priced accounts created diversity in the overall supply risk of the business. We are responsible for billing and collection of all commodity and utility distribution charges to customers in the Georgia market. In addition, we assume the credit risk associated with billing the utility distribution charges in that market. We assumed the billing systems, processes and personnel associated with billing and collections as part of the SESCO acquisition.

We are in the process of moving several of our operational functions to Houston, including IT, customer data solutions, accounting operations and collections. Our corporate functions, including marketing, finance, risk management and legal will remain in Connecticut, as will our corporate headquarters. While we cannot predict the exact timing of the movement of those selected operations to Houston, we expect that the process will be substantially completed by the end of fiscal year 2007.

Our Hedge Facility

Concurrently with the closing of the SESCo acquisition, we entered into a committed exclusive hedging facility with Société Générale. The hedge facility has an initial term of two years with subsequent one year renewal terms. The hedge facility provides us with the ability to enter into NYMEX natural gas and natural gas basis swaps for a tenor of up to 39 months. Fees under the hedge facility include an annual management fee, a volumetric fee based on the tenor of the swap and fees to allow Société Générale to hedge its potential risks arising from material declines of natural gas market prices based on our overall hedge position with them.

The hedge facility is secured by a first lien on the customer contracts and a second lien on substantially all of our other assets. In addition, we provided a total of \$25.0 million as collateral for potential negative mark-to-market changes in the value of the forward hedged position.

Our Revolving Credit Facility

In connection with the SESCo acquisition, we, through our wholly owned subsidiaries MxEnergy Inc. and MxEnergy Electric Inc., entered into an amended and restated credit facility with Société Générale, as administrative agent, and the lenders party thereto, referred to herein as our revolving credit facility. Our revolving credit facility is guaranteed by us and all of our domestic subsidiaries and is secured by a second priority lien on customer contracts and a first priority lien on substantially all of our and our subsidiaries' other existing and future assets.

MxEnergy Inc. and MxEnergy Electric Inc. are permitted to borrow up to the lesser of (x) \$280.0 million (which may be increased to up to \$400.0 million under certain circumstances) and (y) the amount of the then applicable borrowing base. Borrowings under our revolving credit facility generally bear interest at a fluctuating rate based upon a base rate or a Eurodollar rate plus an applicable margin. The applicable margin for base rate loans ranges from 0.5% to 1.375% and the applicable margin for Eurodollar loans ranges from 1.5% to 2.375% during the first year of the revolving credit facility, such interest rates will be re-established during subsequent years, with the expectation that such margin percentages will not increase. All outstanding borrowings under our revolving credit facility are due on December 19, 2008. Letters of credit issued under our revolving credit facility will incur charges ranging from 1.375% to 2% per annum.

Our Floating Rate Senior Notes due 2011

On August 1, 2006, we entered into a \$190.0 million senior unsecured bridge loan, or the bridge loan, the proceeds of which were used to fund the SESCo acquisition. On August 4, 2006, we issued \$190.0 million aggregate principal amount of Floating Rate Senior Notes due 2011, referred to herein as the notes, at 97.5% of par value in a private placement pursuant to Rule 144A promulgated under the Securities Act. The net proceeds from the sale of the notes were used to repay the bridge loan. Interest on the notes is payable semi-annually at a rate of LIBOR plus 7.5% per annum and is reset semi-annually, in each case, on February 1 and August 1 of each year. In the event we complete one or more equity offerings, we may redeem up to 35% of the aggregate principal amount of the notes on or before August 1, 2009 at a price equal to 100% of the principal amount, plus a premium equal to the rate per annum on the notes outstanding on the date notice is given to redeem the notes plus accrued and unpaid interest to the redemption date.

On December 13, 2006, we purchased \$12 million aggregate principal amount of the notes outstanding, and paid accrued interest of approximately \$600,000, from an existing bond holder. We obtained the \$11 million to repurchase such notes from proceeds under our credit facility with Sowood Commodity Partners Fund LP, or Sowood. The purchase of the \$12 million in aggregate principal amount of notes resulted in us recording a gain on early extinguishment of debt of approximately \$400,000, which is net of the write-off of approximately \$600,000 relating to a pro rata portion of the original issue discount of 97.5% on the notes and unamortized debt issuance costs. The \$400,000 was recorded as interest income in our consolidated statement of operations for the three and six month periods ended December 31, 2006.

Material Weakness in Internal Controls

In connection with the audit of our financial statements for the year ended June 30, 2006, we and our independent auditors reported to the audit committee of our board of directors that certain significant deficiencies in internal controls, when evaluated in the aggregate, result in a material weakness in the design and operation of our internal controls as of June 30, 2006. For additional information regarding this identified material weakness, see "Controls and Procedures" included elsewhere in this Quarterly Report.

Adjusted EBITDA

Management believes that Adjusted EBITDA is a measure commonly used by financial analysts in evaluating operating performance and liquidity of companies, including energy companies. Management also believes that this measure allows a standardized comparison between companies in the energy industry, while minimizing the differences from depreciation policies, financial leverage, hedging strategies and tax strategies. Accordingly, management believes that Adjusted EBITDA is the most relevant financial measure in assessing our operating performance and liquidity. Adjusted EBITDA, as used herein, is not necessarily comparable to similarly titled measures of other companies.

EBITDA is defined as net income (loss) before provision (credit) for income taxes, interest expense and depreciation and amortization. Adjusted EBITDA is defined by management as net income (loss) before provision (credit) for income taxes, interest expense, depreciation and amortization, stock compensation and unrealized gains (losses) from risk management activities. Management believes the items excluded from EBITDA to calculate Adjusted EBITDA are not indicative of true operating performance or liquidity of the business and reflect non-cash charges. Therefore, we believe that EBITDA would not provide an accurate reflection of the economic performance of the business since it includes the unrealized gains (losses) from risk management activities without giving effect to the offsetting changes in market value of the underlying customer contracts, which are being economically hedged. In addition, as the underlying customer contracts are not marked to market, the unrealized gains (losses) from risk management activities do not offer an accurate indication of the ultimate cash impact to the business, as the ultimate cash impact to the business is not determinable until delivery of natural gas under the customer contracts and the associated realized gain (loss) on risk management activity.

Management uses Adjusted EBITDA for a variety of purposes including assessing compensation incentives for employees, allocating resources for business growth strategies (e.g., considering acquisition opportunities), allocating resources for operational initiatives (e.g., revising margins on sales initiatives), rationalizing of internal resources, estimating the equity value of the company, including its various equity instruments (such as common stock, preferred stock, stock options and warrants), and assessing the performance and liquidity of the company to its employees. Management also provides financial performance measures to its senior executive team and significant shareholders with an emphasis on Adjusted EBITDA, on a consolidated basis, as the appropriate basis in which to measure the performance and liquidity of the business. Furthermore, certain financial covenants in our revolving credit facility contain ratios based on EBITDA and the items excluded to calculate Adjusted EBITDA, as defined above. Accordingly, management and its significant shareholders utilize Adjusted EBITDA as the primary measure when assessing the operating performance and liquidity of the business.

EBITDA and Adjusted EBITDA (including pro forma presentations thereof) have limitations as analytical tools in comparison to operating income or other combined income data prepared in accordance with generally accepted accounting principles, or GAAP. Some of these limitations are:

- they do not reflect cash outlays for capital expenditures or contractual commitments;
- they do not reflect changes in or cash requirements for, working capital;
- they do not reflect the interest expense or the cash requirements necessary to service interest of principal payments, on indebtedness;
- they do not reflect income tax expense or the cash necessary to pay income taxes;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA (including pro forma presentations thereof) do not reflect cash requirements for such replacements;
- Adjusted EBITDA does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations; and
- other companies, including other companies in our industry, may calculate these measures differently than as presented in this prospectus, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA and Adjusted EBITDA and the related ratios should not be considered as a measure of discretionary cash available to invest in business growth or reduce indebtedness. For more information, see the consolidated financial statements and related notes included elsewhere in this Quarterly Report.

The table below represents a reconciliation of net (loss) income for the three and six months ended December 31, 2006 and 2005 to EBITDA and Adjusted EBITDA (in thousands).

	Three Months Ended December 31,	
	2006	2005
Net loss	\$(3,930)	\$(49,239)
Add: Interest expense, net	8,705	909
Income tax benefit	(1,829)	(33,523)
Depreciation and amortization	6,167	2,575
EBITDA	\$9,113	\$(79,278)
Subtract: Unrealized losses from risk management activities	(335)	(87,019)
Add: Stock compensation	(26)	(418)
Adjusted EBITDA	\$9,422	\$7,323
	Six Months Ended December 31,	
	2006	2005
Net income (loss)	\$(41,513)	\$21,567
Add: Interest expense, net	17,340	1,325
Income tax (benefit) expense	(27,426)	15,281
Depreciation and amortization	12,677	4,213
EBITDA	\$(38,922)	\$42,386
Subtract: Unrealized gains (losses) from risk management activities	(47,940)	31,736
Add: Stock compensation	1,265	553
Adjusted EBITDA	\$10,283	\$11,203

The following table provides a reconciliation of Adjusted EBITDA to net cash used in operating activities for the six months ended December 31, 2006 and 2005 (in thousands).

	Six Months Ended	
	December 31,	
	2006	2005
Adjusted EBITDA	\$10,283	\$11,203
Interest expense, net.....	(17,340)	(1,325)
Income tax (benefit) expense.....	27,426	(15,281)
Deferred tax (benefit) expense	(24,512)	11,583
Unrealized losses on interest rate swaps and amortization of deferred financing fees	4,741	242
Change in assets and liabilities, net of effects of acquisition:		
Net inflow (outflow) in restricted cash and short term investments.....	102	(9,444)
Accounts receivable.....	(75,699)	(64,784)
Inventories.....	(16,199)	(15,596)
Margin deposit on hedge facility	(25,000)	-
Option premiums	1,834	-
Income taxes receivable.....	(7,234)	(4,363)
Security deposits and other assets	4,462	(665)
Accounts payable and accrued expenses.....	74,502	25,908
Net cash used in operating activities	<u>(42,634)</u>	<u>(62,522)</u>
Net cash used in investing activities	<u>(126,477)</u>	<u>(10,546)</u>
Net cash provided by financing activities	<u>175,206</u>	<u>19,997</u>

Results of Operations

Natural gas accounts for 98% of our total sales which exposes us to a high degree of seasonality in our cash flows and income earned throughout our fiscal year. We utilize a considerable amount of cash from operations and borrowings under our revolving credit facility to fund working capital, primarily inventory purchases, from April through October each calendar year (primarily our last and first fiscal quarters). We sell the majority of our natural gas from November through March of each calendar year (primarily our second and third fiscal quarters). We expect the significant seasonality impacts to our cash flows and income earned will continue during fiscal 2007.

Three Month Period Ended December 31, 2006 Compared with Three Month Period Ended December 31, 2005

The average number of RCEs for the three months ended December 31, 2006 was approximately 661,500, an increase of 73%, or approximately 278,100 RCEs over the same period in the prior year, due to the customers acquired in the SESCO acquisition.

Sales for the three months ended December 31, 2006 were \$206.9 million, up \$90.0 million, or 77%, compared to the same period in the prior year, principally due to natural gas consumption associated with the accounts acquired in the SESCO acquisition. In addition, the average selling price per unit (including fee revenue) increased by \$1.38 to \$11.35 per MMBtu, largely due to the higher price of natural gas when fixed price customer contracts were added or renewed in addition to fee income realized from certain of the SESCO customer contracts we acquired. MXenergy sold approximately 18,000,000 MMBtus of natural gas during the three months ended December 31, 2006 compared to approximately 11,387,000 MMBtus during the same period in the prior year. The increased volume is attributable to the customer contracts acquired in connection with the SESCO acquisition. However, overall usage per customer decreased over the same period in the prior year as a result of the warmer-than-normal weather experienced in the Midwestern and Northeastern United States during the quarter ended December 31, 2006.

Gross profit for the three months 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 \$87.0 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 physical gas is delivered to customers during the remaining terms of their fixed rate contracts.

We have elected not to designate any derivative instruments as hedges in accordance with the provisions of SFAS No. 133. Accordingly, any changes in derivative fair value must be adjusted through unrealized losses or gains from risk management activities in the consolidated statements of operations as evidenced by the \$0.3 million and \$87.0 million unrealized losses on risk management activities previously discussed. In addition, the election not to perform hedge accounting can have an impact on earnings as the losses (gains) on realized risk management activities may impact earnings during a different period than the associated margin achieved on the physical sale of natural gas. Each period we do not perform hedge accounting is specifically impacted by realized gains or losses on risk management activities recorded in the prior period, which under hedge accounting would have been deferred in the prior period and recorded in the current period, and gains or losses on realized risk management activities recorded in the current period which under hedge accounting would have been deferred in the current period and recorded in the subsequent period. Under hedge accounting, deferring realized gains or losses on risk management activities would ensure that such realized gains or losses are eventually recorded in the same period as the associated margin achieved when inventory is sold to customers under fixed rate contracts (i.e., the hedging gains and losses would be recorded in the same period as the item being hedged affects earnings).

In our segment analysis, we evaluate performance based on several factors of which the primary financial measure is gross profit adjusted to exclude the effect 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 months ended December 31, 2006, was \$26.0 million, an increase of \$12.7 million over the same period in the prior year. As we do not perform hedge accounting, this increase includes an estimated \$3.0 million of net gains recorded in the same period in the prior year and \$0.6 million of estimated net losses recorded in the current period related to realized risk management activities that impacted operations during a different period than the associated margin achieved on the physical sale of natural gas. The discussion of the impact of the estimated \$0.6 million of realized losses and estimated \$3.0 million of realized gains on our earnings for the three months ended December 31, 2006 and 2005, respectively, assumes our hedge accounting would have been 100% effective. The overall increase in adjusted gross profit between the periods is primarily due to gross profit earned on customer contracts acquired in connection with the

SESCo acquisition.

Operating expenses for the three months ended December 31, 2006 were \$22.7 million, up 180% from \$8.1 million in the three months ended December 31, 2005. This increase was primarily due to increased staffing levels and related costs, higher customer care costs and increased depreciation and amortization expense, all of which were mainly related to the SESCO acquisition. In addition, during the three months ended December 31, 2006, MXenergy recorded rationalization charges of \$0.5 million related to the SESCO acquisition.

For the three months ended December 31, 2006, MXenergy recorded a \$1.8 million income tax benefit compared to a \$33.5 million income tax benefit for the same period in the prior year. The change from the prior year is attributable to a decrease in the pre-tax loss for the three months ended December 31, 2005 of \$82.8 million to a pre-tax loss for the period ended December 31, 2006 of \$5.8 million. In addition, the effective tax rate for the three months ended December 31, 2006 was approximately 31.8% due to a decrease in MXenergy's annualized effective tax rate as calculated during the quarter. The decrease in the annualized effective tax rate was primarily due to an increase in permanent tax deductions arising in the quarter ended December 31, 2006 relating to stock option exercises and a revision in the state effective tax rate. All other significant changes were previously discussed.

Adjusted EBITDA was \$9.4 million for the three months ended December 31, 2006, as compared to Adjusted EBITDA of \$7.3 million for the same period in the prior year. Adjusted EBITDA excludes unrealized gains and losses from risk management activities and non-cash compensation expenses. The increase of \$2.1 million versus the same period in the prior year was primarily due to an increase in gross profit earned on customer contracts acquired in connection with the SESCO acquisition. Included in the net increase of \$2.1 million is an estimated net loss of \$0.6 million in the current period as compared to an estimated net gain of \$3.0 million recorded in the same period in the prior year related to the settlement of risk management activities associated with ending inventory balances. The net gains and losses on risk management activities are largely offset in subsequent periods by the associated effect on margins when the inventory is sold to customers under fixed rate contracts. MXenergy also recorded \$1.8 million in realized losses during the three months ended December 31, 2006 relating to a decision to vary the timing between withdrawing natural gas from inventories and purchasing such natural gas from its physical suppliers during the winter months to satisfy customer demand. The \$1.8 million in realized losses during the three months ended December 31, 2006 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. In addition, during the three months ended December 31, 2006, MXenergy recorded rationalization charges of \$0.5 million related to the SESCO acquisition. 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 SESCO acquisition, MXenergy reported a net increase of \$8.0 million during the three months ended December 31, 2006 over the same period in the prior year, primarily due to an increase in gross profit earned on customer contracts acquired in connection with the SESCO acquisition. Offsetting the \$8.0 million increase over the same period in the prior year was a decrease in gross profit earned per customer due to a 14% decrease in heating degree days across our natural gas markets for the three months ended December 31, 2006 in comparison to the same period in the prior year, due to warmer-than-normal weather experienced in the Midwestern and Northeastern United States. Management estimates that the warmer-than-normal weather in the quarter ended December 31, 2006 resulted in a decrease of approximately 1,844,000 MMBtus of natural gas sold, or approximately \$3.9 million of gross profit realized, during the three months ended December 31, 2006 in comparison to normalized weather forecasts. A heating degree day is defined as the difference between 65 degrees Fahrenheit and the average ambient temperature for a day (e.g., a 45 degree Fahrenheit temperature is equivalent to 20 heating degree days).

Six Month Period Ended December 31, 2006 Compared with Six Month Period Ended December 31, 2005

The average number of RCEs for the six months ended December 31, 2006 was approximately 583,000, an increase of 58%, or approximately 213,200 RCEs, over the same period in the prior year, due 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 in the prior year, principally due to natural gas consumption associated with the accounts acquired in the SESCO acquisition. 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 customers we acquired. MXenergy sold approximately 24,200,000 MMBtus of natural gas during the six months ended December 31, 2006 compared to approximately 14,813,000 MMBtus during the same period in the prior year.

The increased volume is largely attributable to the customers acquired in connection with the SESCO acquisition. However, overall usage per customer decreased over the same period in the prior year as a result of warmer-than-normal weather experienced in the Midwestern and Northeastern United States during the last two months of the six months ended December 31, 2006.

Gross loss for the six months ended December 31, 2006 was \$8.8 million compared to a gross profit of \$54.1 million in the same period in the prior 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, 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 physical gas is delivered to customers during the remaining terms of their fixed rate contracts.

In our segment analysis, we evaluate performance based on several factors of which the primary financial measure is gross profit adjusted to exclude the effect 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 six months ended December 31, 2006, was \$39.1 million, an increase of \$16.7 million over the same period in the prior year. As we do not perform hedge accounting, this increase includes an estimated \$8.9 million of realized gains recorded in the same period in the prior year and \$1.1 million of estimated realized losses recorded in the current period related to realized risk management activities that impacted operations during a different period than the associated margin achieved on the physical sale of natural gas during the period. The discussion of the impact of the estimated \$1.1 million of realized losses and \$8.9 million of estimated realized gains on our earnings for the six months ended December 31, 2006 and 2005, respectively, assumes our hedge accounting would have been 100% effective. The overall increase in adjusted gross profit between the periods is primarily due to margin earned on customer contracts acquired in connection with the SESCO acquisition.

Operating expenses for the six months ended December 31, 2006 were \$42.8 million, up 168% from \$15.9 million in the six months ended December 31, 2005. This was primarily due to increased staffing levels and related costs, higher customer care costs and increased depreciation and amortization expense, all of which were mainly related to the SESCO acquisition. In addition, we recorded rationalization charges of \$1.0 million and compensation expenses of \$0.8 million for management bonuses related to the SESCO acquisition.

For the six months ended December 31, 2006, MXenergy recorded \$27.4 million of income tax benefit compared to \$15.3 million of income tax expense for the same period in the prior year. The change from the prior year is attributable to the change from pre-tax income of \$36.8 million for the six months ended December 31, 2005 to a pre-tax loss of \$68.9 million for the six months ended December 31, 2006. All significant changes were previously discussed.

Adjusted EBITDA for the six months 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. The decrease of \$0.9 million versus the same period in the prior year was due primarily to 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. The net gains and losses on risk management activities are largely offset in subsequent periods by the associated effect 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 relating to customer supply management practices, as previously discussed. In addition, MXenergy recorded non-recurring rationalization charges and compensation expense of \$1.0 million and \$0.8 million respectively, related to the SESCO acquisition. After taking into consideration the gains and losses on risk management activities, the losses realized on customer supply management practices and rationalization and compensation charges recorded relating 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, primarily due to an increase in gross profit earned on customer contracts acquired in connection with the SESCO acquisition. Offsetting the \$12.6 million increase over the same period in the prior year was a decrease in gross profit earned per customer due to a 14% decrease in heating degree days across our natural gas markets for the three months ended December 31, 2006 in comparison to the same period in the prior year, due to warmer-than-normal weather experienced in the Midwestern and Northeastern United States. Management estimates that the warmer-than-normal weather in the quarter ended December 31, 2006 resulted in a decrease of approximately 1,844,000 MMBtus of natural gas sold, or approximately \$3.9 million of gross profit realized, during the six months ended December 31, 2006 in comparison to normalized weather forecasts.

Liquidity and Capital Resources

Our principal source of liquidity for funding our ongoing operations is cash from operations and availability under our revolving credit facility and the Sowood credit facility. Our liquidity requirements arise primarily from our obligations under the indebtedness incurred in connection with customer acquisition costs and the funding of our overall seasonal working capital needs. Because we sell natural gas and electricity, we are subject to material variations in short-term indebtedness under our revolving credit facility on a seasonal basis, due to the timing of commodity purchases to meet customer demands. For the three months ended December 31, 2006 and 2005, the average amount of borrowings under our revolving credit facility and the Sowood credit facility, including seasonal borrowings, was \$2.3 million and \$30.8 million, respectively, and \$1.6 million and \$26.8 million for the six months ended December 31, 2006 and 2005, respectively. For the year ended June 30, 2007, we estimate that we will utilize approximately \$25 to \$35 million of our revolving credit facility for our seasonal working capital requirements. We may use the available portion of our revolving credit facility and the Sowood credit facility, after taking into account our seasonal needs and outstanding letters of credit, for acquisitions and other permitted purposes.

At December 31, 2006, we had \$12.2 million of cash on hand. During the six months ended December 31, 2006, we used proceeds from the notes of \$185.3 million, \$11.0 million of proceeds from our Sowood credit facility and a \$3.3 million cash deposit to fund operating activities of \$42.6 million, the purchase price of the SESCO acquisition of \$126.0 million, customer acquisitions of \$2.4 million, capital expenditures of \$1.4 million, debt financing costs of \$9.2 million, repurchase senior notes of \$11.7 million, purchase common stock for cancellation of \$0.2 million and to increase cash balances by \$6.1 million.

At December 31, 2005, we had \$0.6 million of cash on hand. During the six months ended December 31, 2005, we used cash balances of \$53.1 million, net cash proceeds from loans of \$20.1 million and inflow to fund restricted cash and short term investments of \$9.4 million, operating activities of \$53.1 million, the purchase of a customer portfolio from Castle of \$3.2 million, customer acquisitions of \$4.5 million, capital expenditures of \$2.9 million and to purchase \$0.1 million of common stock for cancellation.

Our Hedge Facility

Prior to entering into the credit facility with Société Générale in December 2005, MXenergy utilized a supplier finance arrangement with Virginia Power Energy Marketing, Inc., or VPEM. In September 2002, MXenergy entered into a five year Energy Marketing Agreement, or EMA, with VPEM. The EMA provides for exclusive physical supply in specified LDC territories and, prior to December 2005, allowed MXenergy to borrow amounts based on the level of our trade receivables and inventories. The terms of the loans varied but were generally due in either 60-day or 300-day increments for receivables and inventory. Interest under the loans accrued at prime to prime plus 2% depending on the term of the advance. In addition, the EMA provided for borrowings of up to \$6.5 million to meet certain collateral requirements with LDCs (including third party guarantees) which accrued interest at 3% per annum. The EMA provided us with the ability to enter into NYMEX Henry Hub and natural gas basis swaps for terms of up to 39 months without having to post any cash collateral for margining. Administrative fees and other volumetric based expenses also apply to the total financing costs of the EMA. The EMA was secured by a first lien on all of MXenergy's assets prior to the closing of the credit facility in December 2005.

In conjunction with the closing of our credit facility in December 2005, the EMA was amended to eliminate the provision for cash borrowings and the \$6.5 million for guarantees. In addition, we must satisfy all physical and financial purchases on industry standard credit terms. Any physical gas purchases from VPEM in excess of \$25.0 million must be collateralized with cash or letters of credit.

The hedge facility with Société Générale replaced the financial hedging component of the EMA including the \$25 million of open credit on physical gas purchases, as previously discussed. We posted an initial balance of \$25.0 million in collateral as margin for the hedge facility. We will not be required to post additional collateral beyond the initial margin requirements unless our forward hedged positions exceed 65,000 MMBtus. Our forward hedged positions as of December 31, 2006 was an unrealized loss of \$41.8 million and totaled approximately 30,300 MMBtus which provides us with the ability to increase our forward hedged positions by 115% before we would be required to post any additional collateral. For more information about our hedge facility, see "—The SESCO Acquisition and Related Transactions" above.

Our Revolving Credit Facility

Under our revolving credit facility, MxEnergy Inc. and MxEnergy Electric Inc. are permitted to borrow up to the lesser of (x) \$280.0 million (which may be increased to up to \$400.0 million under certain circumstances) and (y) the amount of the then applicable borrowing base. Borrowings under our revolving credit facility generally bear interest at a fluctuating rate based upon a base rate or a Eurodollar rate plus an applicable margin. The applicable margin for base rate loans ranges from 0.5% to 1.375% per annum and the applicable margin for Eurodollar loans ranges from 1.5% to 2.375% per annum during the first year of the revolving credit facility. Such interest rates will be re-established during subsequent years, with the expectation that such margin percentages will not increase. All outstanding borrowings under our revolving credit facility are due on December 19, 2008. Letters of credit issued under our revolving credit facility will incur charges ranging from 1.375% to 2% per annum.

Our revolving credit facility contains customary covenants that restrict certain activities including, among others, limitation on capital expenditures, disposal of property and equipment, incurrence of additional indebtedness, issuance of capital stock and dividend payments. Financial covenants under our revolving credit facility include, among others, minimum tangible net worth, minimum working capital and interest coverage, each as defined in our revolving credit facility. Our revolving credit facility also contains customary events of default. For more information about our revolving credit facility, see "—The SESCO Acquisition and Related Transactions" above.

As of the date hereof, we are in compliance with the covenants under our revolving credit facility and we expect to continue to be in compliance during the next twelve months (i.e., through December 31, 2007). Because we have been in compliance with the covenants in our revolving credit facility, these covenants have not had a material impact on our operations, financial condition and results of operations. However, in the future our ability to secure financing for our operations or otherwise pursue our business plan could be limited by these covenants, and if we are unable to obtain financing for our operations or otherwise pursuing our business plan, our growth may be impaired and our revenues may decline.

Our Floating Rate Senior Notes due 2011

The indenture governing the notes contains covenants that limit our ability and the ability of our subsidiaries to, among other things, incur additional debt or issue certain preferred shares; pay dividends on, redeem or repurchase our capital stock or make other restricted payments; make investments; create certain liens; sell certain assets; enter into agreements that restrict the ability of our subsidiaries to make dividend or other payments to us; guarantee indebtedness; engage in transactions with affiliates; prepay, repurchase or redeem the notes; create or designate unrestricted subsidiaries; and consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis. If a change of control, as defined in the indenture governing the notes, were to occur, we will be obligated to make an offer to purchase the notes, in whole or in part, at a price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest, if any, to the date of purchase. If a change in control were to occur, we may not have the financial resources to repay all of our obligations under the notes. For more information about the notes, see "—The SESCO Acquisition and Related Transactions" above.

Unlike our revolving credit facility, the financial covenants in the indenture governing the notes primarily limit our ability to incur additional debt, make distributions or engage in other actions rather than require us to maintain certain financial ratios or levels. Consequently, the covenants in the indenture have not had a significant impact on our operations, financial condition and results of operations. However, in the future our ability to secure financing for our operations could be limited by these covenants, and if we are limited in our ability to obtain financing, our operations, financial condition and results of operations could be adversely affected.

In August 2006, we entered into interest rate swap agreements to hedge the floating rate interest expense on the notes. The swaps are fixed-for-floating and settle against the six month LIBOR rate. The fixed rates under the swaps range from 5.68% to 5.72% per annum. The total notional amount of the interest rate swaps is \$130 million with an average term of four years. None of the interest rate swap agreements have been designated as a hedge under SFAS No. 133; accordingly, changes in the market value of the interest rate swaps have been and will be charged to interest expense.

On December 13, 2006, we purchased \$12 million aggregate principal amount of the notes outstanding, and paid accrued interest of approximately \$600,000, from an existing bond holder. We obtained the \$11 million to re-purchase the notes from proceeds under the Sowood credit facility. The purchase of the \$12 million in aggregate principal amount of notes resulted in us recording a gain on early extinguishment of debt of approximately \$400,000, which is net of the write-off of approximately \$600,000 relating to a pro rata portion of the original issue discount of 97.5% on

the notes and unamortized debt issuance costs. The \$400,000 was recorded as interest income in its consolidated statement of operations for the three and six months ended December 31, 2006.

Sowood Credit Facility

Our subsidiary, MxEnergy Inc., entered into an amended and restated loan agreement with Sowood on November 14, 2003, which loan agreement was amended on March 22, 2004. We may borrow up to \$12.0 million under the Sowood credit facility. Amounts borrowed under the Sowood credit facility may be repaid and reborrowed from time to time. On December 13, 2006, we borrowed \$11 million under the Sowood credit facility to repurchase \$12 million in aggregate principal amount of the notes outstanding. See our condensed consolidated financial statements for the quarter ended December 31, 2006 included elsewhere in this Quarterly Report for more information.

Borrowings under the Sowood credit facility bear interest at a rate of 9% per annum. All outstanding borrowings under the Sowood credit facility will be due on May 14, 2009 or such later date as approved by Sowood in its sole discretion. Borrowings under the Sowood credit facility are secured by a pledge of substantially all of the assets of MxEnergy Inc. As of December 31, 2006, \$11 million was outstanding under the Sowood credit facility. As of December 31, 2005, no amounts were outstanding under the Sowood credit facility.

The Sowood credit facility contains operating and financial covenants. These financial and operational covenants are based on definitions contained in the Sowood credit facility. The financial and operational covenants require MxEnergy Inc. to maintain, among other things, minimum forward book values, minimum total asset values, minimum qualified accounts and minimum consolidated EBITDA.

As of December 31, 2006, we were in compliance with the covenants under the Sowood credit facility. Because we have been in compliance with the covenants in the Sowood credit facility, these covenants have not had a material impact on our operations, financial condition and results of operations. However, in the future our ability to secure financing for our operations or otherwise pursue our business plan could be limited by these covenants, and if we are unable to obtain financing for our operations or otherwise pursuing our business plan, our growth may be impaired and our revenues may decline.

Other

Credit terms from our suppliers of natural gas and electricity often require us to post collateral against our energy purchases. In addition, many of the LDCs behind which we serve customers require that we provide collateral to secure our delivery obligations. We currently finance these collateral obligations with letters of credit under our revolving credit facility or from available cash. Increases in the amount of security we are required to post could adversely affect our liquidity. As of December 31, 2006, we had \$151.4 million in letters of credit and \$0.3 million in restricted cash and \$0.5 million in deposits used as collateral in connection with LDC operating agreements or to support energy purchases.

Estimates for liquidity requirements are highly dependent on then current market conditions including forward prices for energy and market volatility. In determining our liquidity needs, we assume that we will not be provided with any unsecured credit from third parties.

Based upon our current plans, level of operations and business conditions, we believe that our restricted and unrestricted cash, cash generated from operations, availability under revolving credit facility and Sowood credit facility and the net proceeds received by us from the sale of the notes will be sufficient to meet our capital requirements and working capital needs for the foreseeable future.

Employee Restructuring

In August 2006, we approved and announced to employees a plan to move certain of our operations to Houston, Texas in connection with the SESCO acquisition. The terms of the rationalization plan, which are specific to each employee affected, include various employee benefit cost components such as severance, retention bonuses and reimbursement of relocation costs. Certain of the employee benefit costs are contingent on future events, such as continued employment during defined transition periods. We estimate the maximum rationalization charges for the plan, all of which relate to employee severance and benefits, will amount to approximately \$1.5 million. We recorded rationalization charges of \$0.5 million and paid rationalization charges of \$0.1 million during the three months ended December 31, 2006 and recorded rationalization charges of \$1.0 million and paid

rationalization of charges \$0.3 million during the six months ended December 31, 2006. We expect to record \$0.4 million and \$0.1 million of rationalization charges during the remainder of fiscal year 2007 and fiscal year 2008, respectively. We expect to pay \$0.5 million and \$0.7 million of such employee severance and benefits during the remainder of fiscal year 2007 and fiscal year 2008, respectively, utilizing cash flows from operations. All rationalization charges have been recorded to general and administrative expenses in the condensed consolidated statement of operations.

Summary of Contractual Obligations

The following table discloses aggregate information about MXenergy's contractual obligations and commercial commitments as of December 31, 2006 (in millions):

	Outstanding	Less Than 1 Year	2-3 Years	3-5 Years	Thereafter	Total
Notes(1).....	\$174.0	\$—	\$—	\$174.0	\$—	\$174.0
Our revolving credit facility(2).....	—	—	—	—	—	—
Sowood credit facility(3).....	11.0	—	11.0	—	—	11.0
Hedge facility.....	1.0	—	1.0	—	—	1.0
Operating leases.....	4.2	0.7	1.5	0.8	1.2	4.2
Unconditional purchase obligations(4).....	2.6	1.2	1.4	—	—	2.6
Unconditional purchase obligations(5).....	153.1	118.7	34.4	—	—	153.1
Redeemable convertible preferred stock(6).....	31.0	—	—	31.0	—	31.0
Total.....	\$376.9	\$120.6	\$49.3	\$205.8	\$1.2	\$376.9

- (1) Excludes annual interest expense, estimated to be \$23.0 million, and includes \$4.1 million of debt discount.
- (2) Excludes annual interest expense and \$151.3 million in issued letters of credit.
- (3) On December 13, 2006, we borrowed \$11 million under the Sowood credit facility to repurchase \$12 million in aggregate principal amount of the notes outstanding. Balance outstanding at December 31, 2006 is reflected based on the contractual termination date of our revolving credit facility. Excludes annual interest expense, estimated to be \$0.9 million.
- (4) Represents forward physical basis contracts and only the fixed portion thereof.
- (5) Represents forward physical basis contracts and only the variable portion thereof. The variable portion is indexed as the NYMEX settle price for the corresponding delivery month in which the natural gas is purchased. The estimated contractual obligations are based on the NYMEX forward curve as of December 31, 2006 for all corresponding delivery months.
- (6) Excludes annual dividends and does not give effect to redemption at the fair market value of the shares of our Series A Convertible Preferred Stock. The holders of our Series A Convertible Preferred Stock will have the right to "put" such stock to the Company after June 30, 2009. For a more detailed description, see the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report.

Critical Accounting Policies

There have been no changes in our critical accounting policies from those described in our Annual Report for the fiscal year ended June 30, 2006.

New Accounting Standards

The following new accounting standard was issued and adopted by us on July 1, 2006.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), which requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and the measurement based on the grant-date fair value of the award. It

also requires the cost to be recognized over the period during which an employee is required to provide services in exchange for the award (i.e., the vesting period). SFAS No. 123R replaces SFAS No. 123 and supersedes APB Opinion No. 25 and its related interpretations. We adopted SFAS No. 123R on July 1, 2006.

As we historically utilized the minimum value method for pro forma disclosures under the original provisions of SFAS No. 123, we were required to adopt the provisions of SFAS No. 123R using the prospective method. Under the prospective method, we will continue to account for non-vested awards outstanding at the date of adoption of SFAS No. 123R in the same manner as they had been accounted for prior to adoption for financial statement recognition purposes. All awards granted, modified or settled after the adoption will be accounted for using the measurement, recognition and attribution provisions of SFAS No. 123R. The adoption of SFAS No. 123R did not have any financial impact on our financial position, results of operations or cash flows for awards granted prior to June 30, 2006. During the three and six months ended December 31, 2006, we granted 508,000 stock option awards to various employees. Refer to our consolidated financial statements included elsewhere in this Quarterly Report for more information regarding the financial impact of these awards.

The following new accounting standards were issued, but have not yet been adopted by us as of December 31, 2006:

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN No. 48 is effective for us on July 1, 2007. We have not yet determined the impact of adopting FIN No. 48 on our consolidated financial statements.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 also responds to investors' requests for expanded information about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS No. 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (i.e., our fiscal year ended June 30, 2009). Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. We have not yet determined the impact of adopting SFAS No. 157 on our financial statements.

Inflation

We do not believe inflation has a significant effect on our operations.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Market risks relating to our operations result primarily from changes in commodity prices and interest rates. In the normal course of business, we also have limited foreign currency risk associated with our Canadian operations. We employ established policies and procedures to manage our exposure to these risks. Other information relevant to this can be found in our consolidated financial statements for the year ended June 30, 2006.

Commodity Price Risk

We are exposed to commodity price variability in natural gas and electricity to meet projected demand under fixed priced contracts. We utilize both physical and derivative financial instruments to reduce our exposure to fluctuations in the price of natural gas and electricity. Commodity derivatives used as hedges typically have included swaps and options executed under the EMA and prospectively under the hedge facility. At December 31, 2006 the expiry of our hedging instruments extended to December 2009.

We have adopted a risk management policy to measure and limit market risk and credit risk associated with our fixed price portfolio. Our policy requires us to maintain a balanced position at all times and does not permit speculative trading. We have an independent risk management department within the Company responsible for monitoring and enforcement of such policies. The risk policy currently requires that any position exposure in excess of \$5.0 million for more than two days be promptly mitigated.

In addition, we utilize an internally developed modified variance/co-variance "value-at-risk", or VAR, model to estimate a maximum potential loss in the fair value of our natural gas portfolio. The key assumptions for our VAR model include (1) higher of 10 and 30 day NYMEX volatility, (2) net open position for anticipatory hedges and (3) a 99.73% confidence interval. We also run VAR based on an assumed 10,000 RCE anticipatory hedge using the same assumptions.

The estimated maximum potential loss in our fixed price natural gas portfolio using our actual net open position using the VAR model were \$594,000 and \$820,000 as of the end of each month for the three and six months ended December 31, 2006, respectively and the estimated maximum potential loss in our fixed price natural gas portfolio using an assumed 10,000 RCE anticipatory hedge calculated using the VAR model as of the end of each month for the three and six months ended December 31, 2006 were \$79,000 and \$538,000, respectively.

Credit Risk

We are exposed to credit risk in our risk management activities. Credit risk relates to the loss resulting from the nonperformance by a counterparty of its contractual obligations. Historically, we executed all of our fixed price positions under the EMA which includes a master netting agreement that mitigates the outstanding credit exposure. Under the new hedge facility, our risk management activities are with an AA-/Aa2 rated financial institution. To the extent we purchase financial hedges or physical commodity from other counterparties, our risk policy provides for ongoing financial reviews, established credit limits as well as monitoring, managing and mitigating credit exposure.

We also are exposed to credit risk in our sales activities. Approximately 52% of our RCEs are guaranteed by the LDCs at a weighted average discount rate of approximately 1%. Such discount is the cost of service to guarantee the receivable. In cases where receivables are guaranteed by the LDC, we are exposed only to the credit risk of the LDC, rather than that of our actual customers. 93% of our accounts receivable in guaranteed markets are with investment grade LDCs. We assume the credit risk for approximately 10% of the total volume billed by LDCs on our behalf and for the remaining 39% of the total volume billed by us.

Interest Rate Risk

We are exposed to fluctuations in interest rates under our revolving credit facilities. Effective August 4, 2006, we also became exposed to fluctuations in interest rates under the notes. As of December 31, 2006, \$11 million of debt was outstanding under our Sowood credit facility and \$173.9 million of debt was outstanding under our notes, which is net of \$4.1 million of original issue discount. In anticipation of issuing the notes, we entered into interest rate swap agreements during fiscal year 2007. Such interest rate swap agreements will be utilized to manage our exposure to interest rate fluctuations on the notes. These agreements effectively convert interest rate exposure from a variable rate to a fixed rate of interest. See our condensed consolidated financial statements for the quarter ended December 31, 2006 included elsewhere in this Quarterly Report for an

outline of the principal and notional amounts, interest rates, fair values and other terms required to evaluate the expected cash flows from these debt agreements.

Based on the average outstanding amount of our variable rate indebtedness during the three and six months ended December 31, 2006, a one percentage point change in the interest rates for our variable rate indebtedness would have impacted interest expense by an aggregate of approximately \$0.1 million and \$0.3 million, respectively. Based on the expected average outstanding amount of our variable rate indebtedness in fiscal year 2007, a one percentage point change in the interest rates for our variable rate indebtedness would impact fiscal year 2007 interest expense by an aggregate of approximately \$0.5 million, after taking into account the average outstanding notional amount of our interest rate swap agreements.

ITEM 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our "disclosure controls and procedures." Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the financial statements is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. In making this evaluation, we have considered certain material weaknesses (as described below) identified by us and Ernst & Young, LLP, or E&Y, our independent registered accounting firm, and communicated to the audit committee of our board of directors in connection with our June 30, 2006 year-end audit. A material weakness is defined as a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in this Quarterly Report has been timely recorded, processed, summarized and reported within the time periods specified in the rules of the SEC.

In connection with the audit of our consolidated financial statements for the year ended June 30, 2006, E&Y notified the audit committee of our board of directors that we had inadequate staffing levels in the accounting department which results in the lack of a proper segregation of duties at the Controller level and that the overall supervision and review of the daily accounting function and the accounting for transactions may not operate at a level which could detect errors of significance and that improved monitoring of transactions with the LDCs was appropriate. In addition, E&Y advised our audit committee that the lack of formalization of our policies and procedures pertaining to change management controls and logical security over its information technology systems results in an ineffective information technology general controls environment. Management further communicated to the audit committee that it had identified billing errors specific to one of our customer relationship management systems. The billing errors affected customers within a variety of LDCs and principally related to under-billing customers during fiscal year 2006. The billing errors arose due to improper controls surrounding the customer sales price renewal process.

In response to these identified control deficiencies, we have implemented certain disclosure control enhancements, policies and procedures, including:

- adding personnel to our accounting team, including a director of financial reporting, director of tax, treasury manager, an accounts payable clerk, a tax manager, and an accounting systems manager, as well as the core group of well-qualified and experienced accounting personnel that joined us in connection with the SESCo acquisition;
- purchasing and implementing an accounting system designed to facilitate reconciliation and reporting of transactions;
- initiating a process whereby the Controller and/or the Chief Financial Officer sign-off on the review and approval of significant accounting entries;
- purchasing and implementing a risk management system designed to help better track our risks and to facilitate reconciliation and reporting of transactions and risks and, in the interim, centralizing the risk management reporting function to a risk manager and initiating monthly meetings between supply and operations and the accounting team to ensure that all transactions are appropriately recorded;
- employing a risk oversight committee, chaired by a member of the board of directors, which has adopted policies and guidelines regarding the management of our supply portfolio and hedging instruments;
- implementing various controls throughout the customer sales price renewal process to timely identify and address pricing errors;

- initiating the process to add additional personnel to the office of the General Counsel; and
- implementing information technology policies and procedures, including increased regulation of network access, enhanced database management and added segregation of responsibilities.

Other than as described above, there have been no changes in our "internal controls over financial reporting" (as defined in Rule 3a-15(f) of the Exchange Act) during the period covered by this Quarterly Report that have materially affected, or that are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we are a party to claims and legal proceedings that arise in the ordinary course of business. We do not believe that any such proceedings to which we are currently a party are material to our business.

ITEM 1A. Risk Factors

Not applicable.

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

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

The exhibits to this Quarterly Report are available on the SEC's website (www.sec.gov).

Exhibit Number	Title
2.1	Asset Purchase Agreement, dated as of May 12, 2006, by and between MxEnergy Inc. and Shell Energy Services Company L.L.C.*
2.2	First Amendment to Asset Purchase Agreement and Acknowledgement, dated as of July 28, 2006, by and between MxEnergy Inc. and Shell Energy Services Company L.L.C.*
3.1	Amended and Restated Certificate of Incorporation of MxEnergy Holdings Inc.*
3.2	Amended and Restated Bylaws of MxEnergy Holdings Inc.*
4.1	Indenture dated as of August 4, 2006 by and among MxEnergy Holdings Inc., Law Debenture Trust Company of New York, as trustee, and Deutsche Bank Trust Company Americas, as registrar and paying agent, related to MxEnergy's Floating Rate Senior Notes due 2011*
4.2	Form of Senior Floating Rate Note due 2011 (included in Exhibit 4.1)*
4.3	Registration Rights Agreement, dated as of August 4, 2006, by and among MxEnergy Holdings Inc., the guarantors named therein and Deutsche Bank Securities Inc. and Morgan Stanley & Co. Incorporated, as initial purchasers*
10.1	First Amended and Restated Credit Agreement, dated as of August 1, 2006, by and among MxEnergy Inc. and MxEnergy Electric Inc., as borrowers, MxEnergy Holdings Inc. and certain subsidiaries thereof, as guarantors, and Societe Generale, as administrative agent, syndication agent, lead arranger and sole bookrunner*
10.2	First Amended and Restated Pledge Agreement, dated as of August 1, 2006, by and among MxEnergy Inc. and MxEnergy Electric Inc., as borrowers, MxEnergy Holdings Inc. and certain subsidiaries thereof, as guarantors, and Societe Generale*

Exhibit Number	Title
10.3	First Amended and Restated Security Agreement, dated as of August 1, 2006, by and among MxEnergy Inc. and MxEnergy Electric Inc., as borrowers, MxEnergy Holdings Inc. and certain subsidiaries thereof, as guarantors, and Societe Generale*
10.4	Amended and Restated Loan Agreement, dated as of November 14, 2003, by and between Sowood Commodity Partners Fund LP (as successor to Lathi LLC) and MxEnergy Inc.*
10.5	Amended and Restated Security Agreement, dated as of November 14, 2003, by and between Sowood Commodity Partners Fund LP (as successor to Lathi LLC) and MxEnergy Inc.*
10.6	Amendment No. 1 to Amended and Restated Loan Agreement, dated as of March 22, 2004, by and between Sowood Commodity Partners Fund LP (as successor to Lathi LLC) and MxEnergy Inc.*
10.7	Amendment No. 2 to Amended and Restated Loan Agreement and Amendment No. 1 to Amended and Restated Security Agreement, dated as of December 19, 2005, by and between Sowood Commodity Partners Fund LP (as successor to Lathi LLC) and MxEnergy Inc.*
10.8	Amendment No. 3 to Amended and Restated Loan Agreement and Amendment No. 2 to Amended and Restated Security Agreement, dated as of August 1, 2006, by and between Sowood Commodity Partners Fund LP (as successor to Lathi LLC) and MxEnergy Inc.*
10.9	Subordination and Intercreditor Agreement, dated as of December 19, 2005, by and among Societe Generale and certain counterparties, Sowood Commodity Partners Fund LP, MxEnergy Holdings Inc., MxEnergy Inc., MxEnergy Electric Inc. and certain of their respective subsidiaries and Virginia Power Energy Marketing, Inc.*
10.10	Amendment No. 1 to Subordination and Intercreditor Agreement, dated as of August 1, 2006, by and among Societe Generale and certain counterparties, Sowood Commodity Partners Fund LP, MxEnergy Holdings Inc., MxEnergy Inc. and certain of their respective subsidiaries*
10.11	Amended and Restated Energy Marketing Agreement, dated as of December 15, 2005, by and between Virginia Power and Energy Marketing, Inc. and MxEnergy Inc.*
10.12	Letter Agreement, dated as of February 28, 2006, relating to Amended and Restated Energy Marketing Agreement*
10.13	Letter Agreement, dated as of July 11, 2006, relating to Amended and Restated Energy Marketing Agreement*
10.14	Master Transaction Agreement, dated as of August 1, 2006, by and among MxEnergy Inc., MxEnergy Holdings Inc. and certain subsidiaries thereof, as guarantors, and Societe Generale*
10.15	Third Amended and Restated Stockholders' Agreement, dated as of June 25, 2004, by and among MxEnergy Inc., Charter Mx LLC, Sowood Commodity Partners Fund LP (as successor to Lathi LLC), Jeffrey A. Mayer, Carole R. Artman-Hodge, Daniel P. Burke and certain other investors party thereto*
10.16	Registration Rights Agreement dated as of June 25, 2004 by and among MxEnergy Inc., Sowood Commodity Partners Fund LP (as successor to Lathi LLC), Charter Mx LLC, Greenhill Capital Partners, L.P., Greenhill Capital Partners (Cayman), L.P., Greenhill Capital Partners (Executives), L.P., Greenhill Capital, L.P., Jeffrey A. Mayer, Carole R. Artman-Hodge and Daniel P. Burke, Sr.*
10.17	Transition Services Agreement, dated as of August 1, 2006, by and between MxEnergy Inc. and Shell Energy Services Company L.L.C.*
10.18	Employment Agreement, dated as of April 1, 1999, by and between MxEnergy Inc. and Jeffrey Mayer**
10.19	Employment Agreement, dated as of August 4, 2006, by and between MxEnergy Inc. and Steven Murray*
10.20	Employment Agreement, dated as of April 1, 1999, by and between MxEnergy Inc. and Carole R. ("Robi") Artman-Hodge**
10.21	Employment Agreement, dated as of November 11, 2002, by and between MxEnergy Inc. and Chaitu Parikh**
10.22	Employment Agreement, dated as of October 19, 2005, by and between MxEnergy Inc. and Charles Cavin**
10.23	Employment Agreement, dated as of May 1, 2000, by and between MxEnergy Inc. and Emmett Capanna**

Exhibit Number	Title
10.24	Employment Agreement, dated as of December 24, 2004, by and between MxEnergy Inc. and Thomas Hartmann**
10.25	2001 Stock Option Plan, as amended*
10.26	2003 Stock Option Plan, as amended*
10.27	2006 Equity Incentive Compensation Plan*
10.28	Form of Award Agreement under 2001 Stock Option Plan*
10.29	Form of Award Agreement under 2003 Stock Option Plan*
10.30	Form of Stock Option Award Agreement under 2006 Equity Incentive Compensation Plan**
10.31	Financial Advisory Agreement, dated as of January 20, 2005, by and between MxEnergy Inc. and Greenhill & Co., LLC*
10.32	Promissory Note, dated May 12, 2005, by Daniel Bergstein in favor of MxEnergy Inc.**
10.33	Promissory Note, dated May 12, 2005, by JED Communications Associates, Inc. in favor of MxEnergy Inc.**
21	List of Subsidiaries of MxEnergy Holdings Inc.*

* Filed with our Registration Statement on Form S-4 filed with the SEC on November 3, 2006.

** Filed with Amendment No. 1 to our Registration Statement on Form S-4 filed with the SEC on January 17, 2007

All schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable, and, therefore, have been omitted.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

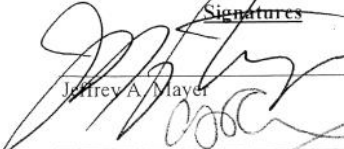
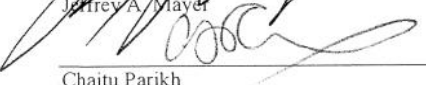
MXENERGY HOLDINGS INC.

Date: February 14, 2007

By: 

Name: Jeffrey A. Mayer
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Quarterly Report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
 Jeffrey A. Mayer	Director, President and Chief Executive Officer (Principal Executive Officer)	February 14, 2007
 Chaitu Parikh	Vice President of Finance, Chief Financial Officer and Assistant Treasurer (Principal Financial Officer and Principal Accounting Officer)	February 14, 2007