

MEXCO ENERGY CORP
Form 10-Q
February 12, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2015

OR

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

For the transition period from to

Commission File No. 0-6994

MEXCO ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: MEXCO ENERGY CORP - Form 10-Q

Colorado 84-0627918
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

214 West Texas Avenue, Suite 1101
Midland, Texas 79701
(Address of principal executive offices) (Zip code)

(432) 682-1119

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company as defined in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares outstanding of the registrant's common stock, par value \$.50 per share, as of February 12, 2016 was 2,037,266.

MEXCO ENERGY CORPORATION

Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Consolidated Balance Sheets (Unaudited) as of December 31, 2015 and March 31, 2015</u>	3
<u>Consolidated Statements of Operations (Unaudited) for the three months and nine months ended December 31, 2015 and December 31, 2014</u>	4
<u>Consolidated Statement of Changes in Stockholders' Equity (Unaudited) for the period ending December 31, 2015</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited) for the nine months ended December 31, 2015 and December 31, 2014</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
Item 4. <u>Controls and Procedures</u>	16
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	17
Item 1A. <u>Risk Factors</u>	17
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
Item 3. <u>Defaults upon Senior Securities</u>	17
Item 4. <u>Mine Safety Disclosures</u>	17
Item 5. <u>Other Information</u>	17
Item 6. <u>Exhibits</u>	17
<u>SIGNATURES</u>	18

CERTIFICATIONS

2

PART I – FINANCIAL INFORMATION

Mexco Energy Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2015	March 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 35,423	\$ 96,084
Accounts receivable:		
Oil and gas sales	252,204	384,485
Trade	34,398	64,584
Prepaid costs and expenses	13,873	44,618
Total current assets	335,898	589,771
Property and equipment, at cost		
Oil and gas properties, using the full cost method	40,872,331	40,563,443
Other	107,484	106,792
Accumulated depreciation, depletion and amortization	(24,067,063)	(19,838,036)
Property and equipment, net	16,912,752	20,832,199
Other noncurrent assets	35,580	48,980
Total assets	\$ 17,284,230	\$ 21,470,950
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 453,963	\$ 423,121
Long-term debt	5,850,000	5,950,000
Asset retirement obligations	1,223,963	1,230,216
Deferred income tax liabilities	-	660,870
Total liabilities	7,527,926	8,264,207
Commitments and contingencies		
Stockholders' equity		
Preferred stock - \$1.00 par value; 10,000,000 shares authorized; none outstanding	-	-
Common stock - \$0.50 par value; 40,000,000 shares authorized; 2,104,266 issued and 2,037,266 shares outstanding as of December 31, 2015 and March 31, 2015	1,052,133	1,052,133
Additional paid-in capital	7,170,801	7,075,031

Edgar Filing: MEXCO ENERGY CORP - Form 10-Q

Retained earnings	1,879,371	5,425,580
Treasury stock, at cost – (67,000 shares)	(346,001)	(346,001)
Total stockholders' equity	9,756,304	13,206,743
Total liabilities and stockholders' equity	\$ 17,284,230	\$ 21,470,950

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

Mexco Energy Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	2015	2014	2015	2014
Operating revenue:				
Oil and gas	\$537,771	\$790,335	\$1,951,228	\$2,784,932
Other	7,099	9,349	25,080	38,684
Total operating revenues	544,870	799,684	1,976,308	2,823,616
Operating expenses:				
Production	286,519	377,438	869,091	1,014,786
Accretion of asset retirement obligation	8,797	8,119	26,394	17,663
Impairment of long-lived asset	2,150,621	-	2,984,410	-
Depreciation, depletion, and amortization	375,987	353,158	1,244,617	976,669
General and administrative	272,936	301,193	931,545	943,525
Total operating expenses	3,094,860	1,039,908	6,056,057	2,952,643
Operating loss	(2,549,990)	(240,224)	(4,079,749)	(129,027)
Other income (expenses):				
Interest income	328	4	363	9
Interest expense	(43,413)	(29,077)	(127,693)	(60,623)
Gain on derivative instruments	-	80,120	-	97,871
Net other (expense) income	(43,085)	51,047	(127,330)	37,257
Loss before provision for income taxes	(2,593,075)	(189,177)	(4,207,079)	(91,770)
Income tax benefit:				
Current	-	-	-	-
Deferred	(147,539)	(13,856)	(660,870)	(21,759)
	(147,539)	(13,856)	(660,870)	(21,759)
Net loss	\$(2,445,536)	\$(175,321)	\$(3,546,209)	\$(70,011)
Loss per common share:				
Basic	\$(1.20)	\$(0.09)	\$(1.74)	\$(0.03)
Diluted	\$(1.20)	\$(0.09)	\$(1.74)	\$(0.03)
Weighted average common shares outstanding:				
Basic	2,037,266	2,038,266	2,037,266	2,038,266
Diluted	2,037,266	2,038,266	2,037,266	2,038,266

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

Mexco Energy Corporation and Subsidiaries**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(Unaudited)

	Common Stock Par Value	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance at April 1, 2015	\$1,052,133	\$(346,001)	\$7,075,031	\$5,425,580	\$13,206,743
Net loss	-	-	-	(324,366)	(324,366)
Stock based compensation	-	-	41,249	-	41,249
Balance at June 30, 2015	\$1,052,133	\$(346,001)	\$7,116,280	\$5,101,214	\$12,923,626
Net loss	-	-	-	(776,307)	(776,307)
Stock based compensation	-	-	30,648	-	30,648
Balance at September 30, 2015	\$1,052,133	\$(346,001)	\$7,146,928	\$4,324,907	\$12,177,967
Net loss	-	-	-	(2,445,536)	(2,445,536)
Stock based compensation	-	-	23,873	-	23,873
Balance at December 31, 2015	\$1,052,133	\$(346,001)	\$7,170,801	\$1,879,371	\$9,756,304

SHARE ACTIVITY

Common stock shares, issued:

Balance at April 1, 2015	2,104,266
Issued	-
Balance at June 30, 2015	2,104,266
Issued	-
Balance at Sept. 30, 2015	2,104,266
Issued	-
Balance at Dec. 31, 2015	2,104,266

Common stock shares, held in treasury:

Balance at April 1, 2015	(67,000)
Acquisitions	-
Balance at June 30, 2015	(67,000)
Acquisitions	-
Balance at Sept. 30, 2015	(67,000)
Acquisitions	-
Balance at Dec. 31, 2015	(67,000)

Common stock shares, outstanding at
December 31, 2015

2,037,266

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

Mexco Energy Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended December 31,

(Unaudited)

	2015	2014
Cash flows from operating activities:		
Net loss	\$(3,546,209)	\$(70,011)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred income tax benefit	(660,870)	(21,759)
Stock-based compensation	95,770	109,928
Depreciation, depletion and amortization	1,244,617	976,669
Accretion of asset retirement obligations	26,394	17,663
Gain on derivative instruments	-	(97,871)
Impairment of oil and gas properties	2,984,410	-
Changes in assets and liabilities:		
Decrease in accounts receivable	162,467	97,154
Decrease (increase) in prepaid expenses	30,745	(47,547)
Decrease in income taxes payable	-	(6,500)
Increase (decrease) in accounts payable and accrued expenses	27,855	(10,729)
Net cash provided by operating activities	365,179	946,997
Cash flows from investing activities:		
Additions to oil and gas properties	(1,083,698)	(4,289,799)
Additions to other property and equipment	(693)	(5,047)
Settlement of asset retirement obligations	(23,812)	(38,476)
Settlement of derivatives	-	(4,959)
Proceeds from sale of oil and gas properties and equipment	782,363	15,335
Net cash used in investing activities	(325,840)	(4,322,946)
Cash flows from financing activities:		
Reduction of long-term debt	(500,000)	(150,000)
Proceeds from long-term debt	400,000	3,475,000
Net cash (used in) provided by financing activities	(100,000)	3,325,000
Net decrease in cash and cash equivalents	(60,661)	(50,949)
Cash and cash equivalents at beginning of period	96,084	156,082
Cash and cash equivalents at end of period	\$35,423	\$105,133
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$126,555	\$53,144

Non-cash investing and financing activities:

Asset retirement obligations	\$5,097	\$270,924
------------------------------	---------	-----------

The accompanying notes are an integral part of

the consolidated financial statements.

MEXCO ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations

Mexco Energy Corporation (a Colorado corporation) and its wholly owned subsidiaries, Forman Energy Corporation (a New York corporation), Southwest Texas Disposal Corporation (a Texas corporation) and TBO Oil & Gas, LLC (a Texas limited liability company) (collectively, the “Company”) are engaged in the exploration, development and production of natural gas, crude oil, condensate and natural gas liquids (“NGLs”). Most of the Company’s oil and gas interests are centered in the Permian Basin of West Texas; however, the Company owns producing properties and undeveloped acreage in thirteen states. Although most of the Company’s oil and gas interests are operated by others, the Company operates several properties in which it owns an interest.

2. Basis of Presentation and Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Mexco Energy Corporation and its wholly owned subsidiaries. All significant intercompany balances and transactions associated with the consolidated operations have been eliminated.

Estimates and Assumptions. In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make informed judgments, estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. In addition, significant estimates are used in determining proved oil and gas reserves. Although management believes its estimates and assumptions are reasonable, actual results may differ materially from those estimates. The estimate of the Company’s oil and natural gas reserves, which is used to compute depreciation, depletion, amortization and impairment of oil and gas properties, is the most significant of the estimates and assumptions that affect these reported results.

Interim Financial Statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position of the Company as of December 31, 2015, and the results of its operations and cash flows for the interim periods ended December 31, 2015 and 2014. The financial statements as of December 31, 2015 and for the three and nine month periods ended December 31, 2015 and 2014 are unaudited. The consolidated balance sheet as of

March 31, 2015 was derived from the audited balance sheet filed in the Company's 2015 annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). The results of operations for the periods presented are not necessarily indicative of the results to be expected for a full year. The accounting policies followed by the Company are set forth in more detail in Note 2 of the "Notes to Consolidated Financial Statements" in the Form 10-K. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. However, the disclosures herein are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Form 10-K.

Recent Accounting Pronouncements. In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, Topic 740 Income Taxes: Balance Sheet Classification of Deferred Taxes which requires all deferred income tax liabilities and assets to be presented as noncurrent in a classified balance sheet. Currently, entities are required to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified balance sheet. The new standard will become effective for Mexco beginning on April 1, 2017, with the option to early adopt, and can be applied either prospectively or retrospectively. The adoption of this guidance will have no impact on our results of operations or cash flows. The reclassification of amounts from current to noncurrent will affect the presentation of our balance sheet.

In February 2015, the FASB issued ASU No. 2015-02, Topic 810: Consolidation which amends the current consolidation guidance. ASU No. 2015-02 is effective for Mexco as of April 1, 2016. Management is assessing the standard update and does not believe there will be a significant impact on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Subtopic 205-40: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. ASU No. 2014-15 is effective for Mexco for the fiscal year ending March 31, 2017 and interim periods thereafter and early adoption is permitted. Management does not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Topic 606: Revenue from Contracts with Customers. This ASU provides guidance concerning the recognition and measurement of revenue from contracts with customers. The effective date for ASU 2014-09 was delayed through the issuance of ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, to annual and interim periods beginning in 2018 and is required to be adopted using either the retrospective or cumulative effect transition method, with early adoption permitted in 2017. Management is evaluating the effect, if any this pronouncement will have on our consolidated financial statements.

3. Asset Retirement Obligations

The Company's asset retirement obligations ("ARO") relate to the plugging of wells, the removal of facilities and equipment, and site restoration on oil and gas properties. The fair value of a liability for an ARO is recorded in the period in which it is incurred, discounted to its present value using the credit adjusted risk-free interest rate, and a corresponding amount capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted each period, and the capitalized cost is depreciated over the useful life of the related asset. The ARO is included in the Consolidated Balance Sheets with the current portion being included in the accounts payable and other accrued expenses.

The following table provides a rollforward of the AROs for the first nine months of fiscal 2016:

Carrying amount of asset retirement obligations as of April 1, 2015	\$1,240,216
Liabilities incurred	5,097
Liabilities settled	(37,744)
Accretion expense	26,394
Carrying amount of asset retirement obligations as of December 31, 2015	1,233,963
Less: Current portion	10,000
Non-Current asset retirement obligation	\$1,223,963

4. Stock-based Compensation

Edgar Filing: MEXCO ENERGY CORP - Form 10-Q

The Company recognized stock-based compensation expense of \$23,873 and \$45,775 in general and administrative expense in the Consolidated Statements of Operations for the three months ended December 31, 2015 and 2014, respectively. Compensation expense recognized for the nine months ended December 31, 2015 and 2014 was \$95,770 and \$109,928, respectively. The total cost related to non-vested awards not yet recognized at December 31, 2015 totals \$99,836 which is expected to be recognized over a weighted average of 2.17 years.

Included in the following table is a summary of the grant-date fair value of stock options granted and the related assumptions used in the Binomial models for stock options granted during the nine months ended December 31, 2015 and 2014. All such amounts represent the weighted average amounts.

	Nine Months Ended December 31 2015	2014
Grant-date fair value	- \$5.59	
Volatility factor	- 76.23%	
Dividend yield	- -	
Risk-free interest rate	- 2.52 %	
Expected term (in years)	- 10	

The following table is a summary of activity of stock options for the nine months ended December 31, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life in Years	Aggregate Intrinsic Value
Outstanding at April 1, 2015	153,600	\$ 6.52	7.36	\$ -
Granted	-	-		
Exercised	-	-		
Forfeited or Expired	-	-		
Outstanding at December 31, 2015	153,600	\$ 6.52	6.61	\$ -
Vested at December 31, 2015	106,100	\$ 6.48	5.93	\$ -
Exercisable at December 31, 2015	106,100	\$ 6.48	5.93	\$ -

There were no options granted during the nine months ended December 31, 2015. During the nine months ended December 31, 2014, stock options covering 40,000 shares were granted.

Outstanding options at December 31, 2015 expire between August 2020 and August 2024 and have exercise prices ranging from \$5.98 to \$7.00.

5. Fair Value of Financial Instruments

Fair value as defined by authoritative literature is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Fair value measurements are classified and disclosed in one of the following categories:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The carrying amount reported in the accompanying consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the immediate or short-term maturity of these financial instruments.

The fair value amount reported in the accompanying consolidated balance sheets for long term debt approximates fair value because the actual interest rates do not significantly differ from current rates offered for instruments with similar characteristics and is deemed to use Level 2 inputs. See the Company's Note 6 on Credit Facility for further discussion.

The fair value of the Company's crude oil swaps are measured internally using established commodity futures price strips for the underlying commodity provided by a reputable third party, the contracted notional volumes, and time to maturity. The valuation of the Company's derivative instrument is deemed to use Level 2 inputs. See the Company's Note 8 on Derivatives for further discussion.

6. Credit Facility

The Company has a revolving credit agreement with Bank of America, N.A. (the "Agreement"), which provides for a credit facility of \$6,300,000 with no monthly commitment reductions and a borrowing base evaluated annually, currently set at \$6,300,000. Amounts borrowed under the Agreement are collateralized by the common stock of the Company's wholly owned subsidiaries and substantially all of the Company's oil and gas properties.

The Agreement was renewed nine times with the ninth amendment on February 13, 2015, which revised the maturity date to November 30, 2020. Under the original and renewed agreements, interest on the facility accrues at an annual rate equal to the British Bankers Association London Interbank Offered Rate (“BBA LIBOR”) daily floating rate, plus 2.50 percentage points, which was 2.92% on December 31, 2015. Interest on the outstanding amount under the credit agreement is payable monthly. In addition, the Company will pay an unused commitment fee in an amount equal to ½ of 1 percent (.5%) times the daily average of the unadvanced amount of the commitment. The unused commitment fee is payable quarterly in arrears on the last day of each calendar quarter and is included in the consolidated statements of operations under the caption “General and administrative” expenses. Availability of this line of credit at December 31, 2015 was \$400,000. No principal payments are anticipated to be required through November 30, 2020.

The Agreement contains customary covenants for credit facilities of this type including limitations on disposition of assets, mergers and reorganizations. The Company is also obligated to meet certain financial covenants under the Agreement. The Company is in compliance with all covenants as of December 31, 2015. In addition, this Agreement prohibits the Company from paying cash dividends on our common stock. The Agreement does grant the Company permission to enter into hedge agreements; however, the Company is under no obligation to do so.

The amended Agreement allows for up to \$500,000 of the facility to be used for outstanding letters of credits. As of December 31, 2015, one letter of credit for \$50,000, in lieu of a plugging bond with the Texas Railroad Commission (“TRRC”) covering the properties the Company operates is outstanding under the facility. This letter of credit renews annually. The Company will pay a fee in an amount equal to 1 percent (1.0%) per annum of the outstanding undrawn amount of each standby letter of credit, payable monthly in arrears, on the basis of the face amount outstanding on the day the fee is calculated and is included in the consolidated statements of operations under the caption “General and administrative” expenses.

The balance outstanding on the line of credit as of December 31, 2015 was \$5,850,000. The following table is a summary of activity on the Bank of America, N.A. line of credit for the nine months ended December 31, 2015:

	Principal
Balance at April 1, 2015:	\$5,950,000
Borrowings	400,000
Repayments	500,000
Balance at December 31, 2015:	\$5,850,000

Subsequently, a payment of \$50,000 was paid to the line of credit on January 29, 2016 reducing the balance on the line of credit to \$5,800,000.

7. Income Taxes

A valuation allowance for deferred tax assets, including net operating losses, is recognized when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. To assess that likelihood, we use estimates and judgment regarding our future taxable income, and we consider the tax consequences in the jurisdiction where such taxable income is generated, to determine whether a valuation allowance is required. Such evidence can include our current financial position, our results of operations, both actual and forecasted, the reversal of deferred tax liabilities, and tax planning strategies as well as the current and forecasted business economics of our industry.

Based on the material write-downs of the carrying value of our oil and natural gas properties we project being in a net deferred tax asset position at March 31, 2016. Our deferred tax asset is \$655,551 as of December 31, 2015 with a valuation amount of \$655,551. We believe it is more likely than not that these deferred tax assets will not be realized. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of deferred tax assets. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as future expected growth.

The income tax provision consists of the following for the three and nine months ended December 31, 2015 and 2014:

	Three Months Ended		Nine Months Ended	
	December 31		December 31	
	2015	2014	2015	2014
Current income tax	\$-	\$-	\$-	\$-
Deferred income tax benefit	(147,539)	(13,856)	(660,870)	(21,759)
Total income tax provision:	\$(147,539)	\$(13,856)	\$(660,870)	\$(21,759)
Effective tax rate	(6 %)	(7 %)	(16 %)	(24 %)

The change in our effective tax rate was impacted by the application of graduated rates, permanent differences and statutory depletion for the nine months ended December 31, 2015.

8. Derivatives

The Company has used price swap contracts to reduce price volatility associated with certain of its oil sales. With respect to the Company's fixed price swap contracts, the counterparty is required to make a payment to the Company if the settlement price for any settlement period is less than the swap price, and the Company is required to make a payment to the counterparty if the settlement price for any settlement period is greater than the swap price. The Company's derivative contracts are based upon reported settlement prices on commodity exchanges, with crude oil derivative settlements based on New York Mercantile Exchange West Texas Intermediate ("NYMEX WTI") pricing. The counterparty to the Company's derivative contract is Merrill Lynch Commodities, Inc., which the Company believes is an acceptable credit risk.

All derivative financial instruments are recorded at fair value. The Company has not designated its derivative instruments as hedges for accounting purposes and, as a result, marks its derivative instruments to fair value and recognizes the realized and unrealized changes in fair value in the consolidated statements of operations under the caption "Gain on derivative instruments." The following summarizes the loss on derivative instruments included in the consolidated statements of operations for the three and nine months ended December 31, 2015 and 2014:

Three Months Ended	Nine Months Ended
December 31	December 31
2015	2015
2014	2014

Edgar Filing: MEXCO ENERGY CORP - Form 10-Q

Unrealized gain on open non-hedge derivative instruments	\$-	\$54,839	\$-	\$102,830
Gain (loss) on settlement of non-hedge derivative instruments	-	25,281	-	(4,959)
Total gain on derivative instruments	\$-	\$80,120	\$-	\$97,871

As of December 31, 2015 the Company does not have any open crude oil derivative positions with respect to future production.

9. Related Party Transactions

Related party transactions for the Company relate to shared office expenditures in addition to administrative and operating expenses paid on behalf of the majority stockholder. The total billed to and reimbursed by the stockholder for the three months ended December 31, 2015 and 2014 was \$31,711 and \$44,869, respectively. The total billed to and reimbursed by the stockholder for the nine months ended December 31, 2015 and 2014 was \$81,412 and \$100,510, respectively.

10. Loss Per Common Share

The Company's basic net loss per share has been computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share assumes the exercise of all stock options having exercise prices less than the average market price of the common stock during the period using the treasury stock method and is computed by dividing net loss by the weighted average number of common share and dilutive potential common shares (stock options) outstanding during the period. In periods where losses are reported, the weighted-average number of common shares outstanding excludes potential common shares, because their inclusion would be anti-dilutive.

The following is a reconciliation of the number of shares used in the calculation of basic net loss per share and diluted loss per share for the three and nine month periods ended December 31, 2015 and 2014:

	Three Months Ended December 31		Nine Months Ended December 31	
	2015	2014	2015	2014
Net loss	\$(2,445,536)	\$(175,321)	\$(3,546,209)	\$(70,011)
Shares outstanding:				
Weighted avg. common shares outstanding – basic	2,037,266	2,038,266	2,037,266	2,038,266
Effect of the assumed exercise of dilutive stock options	-	-	-	-
Weighted avg. common shares outstanding – dilutive	2,037,266	2,038,266	2,037,266	2,038,266
Loss per common share:				
Basic	\$(1.20)	\$(0.09)	\$(1.74)	\$(0.03)
Diluted	\$(1.20)	\$(0.09)	\$(1.74)	\$(0.03)

Due to a net loss for the three and nine months ended December 31, 2015 and 2014, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive.

11. Subsequent Events

In January 2016, the Company sold its mineral interests of 18.75 net acres in Howard County, Texas for \$145,000, effective February 1, 2016.

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

Unless the context otherwise requires, references to the "Company", "Mexco", "we", "us" or "our" mean Mexco Energy Corporation and its consolidated subsidiaries.

Cautionary Statements Regarding Forward-Looking Statements. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include statements regarding our plans, beliefs or current expectations and may be signified by the words "could", "should", "expect", "project", "estimate", "believe", "anticipate", "intend", "budget", "plan", "forecast", "predict" and other similar expressions. Forward-looking statements appear throughout this Form 10-Q with respect to, among other things: profitability; planned capital expenditures; estimates of oil and gas production; future project dates; estimates of future oil and gas prices; estimates of oil and gas reserves; our future financial condition or results of operations; and our business strategy and other plans and objectives for future operations. Forward-looking statements involve known and unknown risks and uncertainties that could cause actual results to differ materially from those contained in any forward-looking statement.

While we have made assumptions that we believe are reasonable, the assumptions that support our forward-looking statements are based upon information that is currently available and is subject to change. All forward-looking statements in the Form 10-Q are qualified in their entirety by the cautionary statement contained in this section. We do not undertake to update, revise or correct any of the forward-looking information. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Form 10-K.

Liquidity and Capital Resources. Historically, we have funded our operations, acquisitions, exploration and development expenditures from cash generated by operating activities, bank borrowings and issuance of common stock. Our primary financial resource is our base of oil and gas reserves. We pledge our producing oil and gas properties to secure our revolving line of credit. We do not have any delivery commitments to provide a fixed and determinable quantity of its oil and gas under any existing contract or agreement.

Our long term strategy is on increasing profit margins while concentrating on obtaining reserves with low cost operations by acquiring and developing oil and gas properties with potential for long-lived production. We focus our efforts on the acquisition of royalties and working interests in non-operated properties in areas with significant development potential.

We are applying financial discipline to all aspects of our business with the primary goal of continuing to increase financial and operational flexibility through value-driven spending and lower business costs. In addition, we will continue to strive towards balancing capital expenditures with cash flows. As a result of our focus on financial discipline, our combined production and general and administrative costs decreased to \$3.50 per mcf from \$4.87 per mcf and to \$3.71 per mcf from \$4.85 per mcf for the three and nine months ended December 31, 2015, respectively, when compared to the same period last year.

For the first nine months of fiscal 2016, cash flow from operations was \$365,179, a 61% decrease when compared to the corresponding period of fiscal 2015. Net cash of \$100,000 was used to repay on the line of credit and net cash of \$302,028 was used for additions to oil and gas properties and equipment. Accordingly, net cash decreased \$60,661.

At December 31, 2015, we had negative working capital of \$118,065 compared to working capital of \$166,650 at March 31, 2015, a decrease of \$284,715 for the reasons set forth below.

Subsequent to the quarter ending September 30, 2015 the Company is participating in the following fractional interests:

Edgar Filing: MEXCO ENERGY CORP - Form 10-Q

- Two royalty interest wells drilled and recently began producing in Upton County, Texas by Pioneer Natural Resources Company, two more wells are currently drilling with two more planned for early February, all being
- 1) horizontal wells with 10,000 feet of laterals at no expense to us. These wells are located in part on 411 acres in which Mexco has retained a 1% overriding royalty interest.
 - 2) Pioneer advised us of three horizontal wells producing on our royalty interests in Reagan County, Texas at no expense to us.
 - 3) Five new working interest wells, for which we have advanced payment since September 30, 2015, are to be drilled in Lea County, New Mexico.

In November 2015, the Company made a three year term assignment of a leasehold interest in 320 net acres (640 gross acres) in Upton County, Texas to an independent operator in return for payment to Mexco of \$2,000 per acre for a total of \$640,000. Mexco retained a 1% overriding royalty interest in this acreage.

We are participating in other projects and are reviewing projects in which we may participate. The cost of such projects would be funded, to the extent possible, from existing cash balances and cash flow from operations. The remainder may be funded through borrowings on the credit facility and, if appropriate, sales of Mexco common stock. We are also evaluating asset sales and farmouts to increase our liquidity and future cash flow.

Crude oil and natural gas prices have fluctuated significantly in recent years. Lower product prices reduce our cash flow from operations and diminish the present value of our oil and gas reserves. Lower product prices also offer us less incentive to assume the drilling risks that are inherent in our business. The volatility of the energy markets makes it extremely difficult to predict future oil and natural gas price movements with any certainty. For example in the last twelve months, the West Texas Intermediate (“WTI”) posted price for crude oil has ranged from a low of \$31.00 per bbl in December 2015 to a high of \$58.00 per bbl in June 2015. The Henry Hub Spot Market Price (“Henry Hub”) for natural gas has ranged from a low of \$1.63 per MMBtu in December 2015 to a high of \$3.32 per MMBtu in January 2015. On December 31, 2015 the WTI posted price for crude oil was \$33.50 per bbl and the Henry Hub spot price for natural gas was \$2.28 per MMBtu.

Management is of the opinion that cash flow from operations and funds available from financing will be sufficient to provide adequate liquidity for the next fiscal year.

Contractual Obligations. We have no off-balance sheet debt or unrecorded obligations and have not guaranteed the debt of any other party. The following table summarizes our future payments we are obligated to make based on agreements in place as of December 31, 2015:

	Payments due in:			
	Total	less than 1 year	1 - 3 years	over 3 years
Contractual obligations:				
Secured bank line of credit (1)	\$5,850,000	\$-	\$-	\$5,850,000
Leases (2)	\$10,280	\$9,175	\$1,105	\$-

These amounts represent the balances outstanding under the bank line of credit. These repayments assume that (1) interest will be paid on a monthly basis, no additional funds will be drawn and does not include estimated interest of \$170,931 less than 1 year, \$512,793 1-3 years and \$156,687 over 3 years.

The lease amount represents the monthly rent amount for our principal office space in Midland, Texas under one three year lease agreement effective April 1, 2013 and a second three year lease agreement effective April 1, 2014. (2) The total obligation for the remainder of the leases is \$12,590 which includes \$2,310 billed to and reimbursed by our majority shareholder for his portion of the shared office space.

Results of Operations – Three Months Ended December 31, 2015 and 2014. For the quarter ended December 31, 2015, there was a net loss of \$2,445,536 compared to a net loss of \$175,321 for the quarter ended December 31, 2014. This was a result of an impairment of our oil and gas properties.

Oil and gas sales. Revenue from oil and gas sales was \$537,771 for the third quarter of fiscal 2016, a 32% decrease from \$790,335 for the same period of fiscal 2015. This resulted from a decrease in oil and gas prices partially offset by an increase in oil and gas production.

	2015	2014	% Difference	
Oil:				
Revenue	\$339,331	\$465,325	(27.1)%
Volume (bbls)	8,936	7,379	21.1	%
Average Price (per bbl)	\$37.98	\$63.06	(39.8)%
Gas:				
Revenue	\$198,440	\$325,010	(38.9)%
Volume (mcf)	106,416	94,962	12.1	%
Average Price (per mcf)	\$1.86	\$3.42	(45.6)%

⁽¹⁾ After giving effect to our derivative instruments, the average sales price per Bbl of oil was \$66.49 for the quarter ended December 31, 2014.

Production and exploration. Production costs were \$286,519 for the third quarter of fiscal 2016, a 24% decrease from \$377,438 for the same period of fiscal 2015. This was primarily the result of a decrease in lease operating expenses as a result of lowering service costs due to a decrease in oil and gas prices.

Impairment of oil and gas properties. The impairment in the carrying value of our oil and natural gas properties was \$2,150,621 for the third quarter of fiscal 2016. This was due to downward adjustments to the economically recoverable proved reserves associated with decreases in estimated realized oil and natural gas prices.

Depreciation, depletion and amortization. Depreciation, depletion and amortization expense was \$375,987 for the third quarter of fiscal 2016, a 6% increase from \$353,158 for the same period of fiscal 2015, primarily due to an increase to the full cost pool amortization base and an increase in oil and gas production.

General and administrative expenses. General and administrative expenses were \$272,936 for the third quarter of fiscal 2016, a 9% decrease from \$301,193 for the same period of fiscal 2015. This was primarily due to a decrease in accounting fees, bank charges, stock option compensation expense and insurance costs.

Interest expense. Interest expense was \$43,413 for the third quarter of fiscal 2016, a 49% increase from \$29,077 for the same period of fiscal 2015, due to an increase in borrowings as well as an increase in interest rate.

Income taxes. There was an income tax benefit of \$147,539 for the quarter ended December 31, 2015 compared to a benefit of \$13,856 for the quarter ended December 31, 2014. The effective tax rate for the three months ended December 31, 2015 was (6%) compared to (7%) for the three months ended December 31, 2014. The change in our effective tax rate was impacted by an impairment of our oil and gas properties and the application of graduated rates, permanent differences and statutory depletion for the three months ended December 31, 2015 as well as changes in the valuation allowance on our net deferred tax asset.

Results of Operations – Nine Months Ended December 31, 2015 and 2014. For the nine months ended December 31, 2015, there was a net loss of \$3,546,209, a decrease from a net loss of \$70,011 for the nine months ended December 31, 2014. This was a result of an impairment of our oil and gas properties, a decrease in operating revenues and an increase in depreciation, depletion and amortization (“DD&A”).

Oil and gas sales. Revenue from oil and gas sales was \$1,951,228 for the nine months ended December 31, 2015, a 30% decrease from \$2,784,932 for the same period of fiscal 2015. This resulted from a decrease in oil and gas prices partially offset by an increase in oil and gas production.

	2015	2014	% Difference	
Oil:				
Revenue	\$1,313,315	\$1,741,229	(24.6)%
Volume (bbls)	29,160	21,716	34.3	%
Average Price (per bbl)	\$45.04	\$80.18	(43.8)%
Gas:				
Revenue	\$637,913	\$1,043,703	(38.9)%
Volume (mcf)	310,994	273,467	13.7	%
Average Price (per mcf)	\$2.05	\$3.82	(46.3)%

⁽¹⁾ After giving effect to our derivative instruments, the average sales price per Bbl of oil was \$79.95 for the nine months ended December 31, 2014.

Production and exploration. Production costs were \$869,091 for the nine months ended December 31, 2015, a 14% decrease from \$1,014,786 for the nine months ended December 31, 2014. This was primarily the result of a decrease in lease operating expenses as a result of lowering service costs due to a decrease in oil and gas prices.

Impairment of oil and gas properties. The impairment in the carrying value of our oil and natural gas properties was \$2,984,410 for the nine months ended December 31, 2015. This was due to downward adjustments to the economically recoverable proved reserves associated with decreases in estimated realized oil and natural gas prices.

Depreciation, depletion and amortization. Depreciation, depletion and amortization expense was \$1,244,617 for the nine months ended December 31, 2015, a 27% increase from \$976,669 for the nine months ended December 31, 2014, primarily due to an increase in the full cost pool amortization base and an increase in oil and gas production.

General and administrative expenses. General and administrative expenses were \$931,545 for the nine months ended December 31, 2015, a 1% decrease from \$943,525 for the nine months ended December 31, 2014. This was primarily due to a decrease in accounting, salary and insurance expenses.

Interest expense. Interest expense was \$127,693 for the nine months ended December 31, 2015, a 111% increase from \$60,623 for the nine months ended December 31, 2014 due to an increase in borrowings as well as an increase in interest rate.

Income taxes. There was an income tax benefit of \$660,870 for the nine months ended December 31, 2015 compared to an income tax benefit of \$21,759 for the nine months ended December 31, 2014. The effective tax rate for the nine months ended December 31, 2015 was (16%) compared to (24%) for the nine months ended December 31, 2014. The change in our effective tax rate was impacted by an impairment of our oil and gas properties and the application of graduated rates, permanent differences and statutory depletion for the nine months ended December 31, 2015 as well as changes in the valuation allowance on our net deferred tax asset.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary sources of market risk for us include fluctuations in commodity prices and interest rates. All of our financial instruments are for purposes other than trading.

Interest Rate Risk. At December 31, 2015, we had an outstanding loan balance of \$5,850,000 under our \$6.3 million revolving credit agreement, which bears interest at an annual rate equal to the BBA LIBOR daily floating rate, plus 2.50 percentage points. If the interest rate on our bank debt increases or decreases by one percentage point, our annual pretax income would change by \$58,500 based on the outstanding balance at December 31, 2015.

Credit Risk. Credit risk is the risk of loss as a result of nonperformance by other parties of their contractual obligations. Our primary credit risk is related to oil and gas production sold to various purchasers and the receivables are generally not collateralized. At December 31, 2015, our largest credit risk associated with any single purchaser was \$42,675 or 17% of our total oil and gas receivables. We are also exposed to credit risk in the event of nonperformance from any of our working interest partners. At December 31, 2015, our largest credit risk associated with any working interest partner was \$12,847 or 37% of our total trade receivables. We have not experienced any significant credit losses.

Energy Price Risk. Our most significant market risk is the pricing for natural gas and crude oil. Our financial condition, results of operations, and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. Prices for oil and natural gas fluctuate widely. We cannot predict future oil and natural gas prices with any certainty. Factors that can cause price fluctuations include the level of global demand for petroleum products, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil-exporting countries, weather conditions, the price and availability of alternative fuels and overall political and economic conditions in oil producing countries.

Declines in oil and natural gas prices will materially adversely affect our financial condition, liquidity, ability to obtain financing and operating results. Changes in oil and gas prices impact both estimated future net revenue and the estimated quantity of proved reserves. Any reduction in reserves, including reductions due to price fluctuations, can reduce the borrowing base under our revolving credit facility and adversely affect the amount of cash flow available for capital expenditures and our ability to obtain additional capital for our acquisition, exploration and development activities. In addition, a noncash write-down of our oil and gas properties could be required under full cost accounting rules if prices declined significantly, even if it is only for a short period of time. Lower prices may also reduce the amount of crude oil and natural gas that can be produced economically. Thus, we may experience material increases or decreases in reserve quantities solely as a result of price changes and not as a result of drilling or well performance.

Similarly, any improvements in oil and gas prices can have a favorable impact on our financial condition, results of operations and capital resources. Oil and natural gas prices do not necessarily fluctuate in direct relationship to each other. Our financial results are more sensitive to movements in natural gas prices than oil prices because most of our production and reserves are natural gas. If the average oil price had increased or decreased by ten dollars per barrel for the first nine months of fiscal 2016, our pretax income or loss would have changed by \$291,600. If the average gas price had increased or decreased by one dollar per mcf for the first nine months of fiscal 2016, our pretax income or loss would have changed by \$310,994.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized and reported on a timely basis. At the end of the period covered by this report, our principal executive officer and principal financial officer reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(f). Based on such evaluation, such officers concluded that, as of December 31, 2015, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting. No changes in our internal control over financial reporting occurred during the nine months ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business. We are not aware of any legal or governmental proceedings against us, or contemplated to be brought against us, under various environmental protection statutes or other regulations to which we are subject.

Item 1A. Risk Factors

There have been no material changes to the information previously disclosed in Item 1A. “Risk Factors” in our 2015 Annual Report on Form 10-K.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1 Certification of the Chief Executive Officer of Mexco Energy Corporation

31.2 Certification of the Chief Financial Officer of Mexco Energy Corporation

32.1 Certification of the Chief Executive Officer and Chief Financial Officer of Mexco Energy Corporation pursuant to 18 U.S.C. §1350

17

SIGNATURES

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

MEXCO ENERGY CORPORATION
(Registrant)

Dated: February 12, 2016 */s/ Nicholas C. Taylor*
Nicholas C. Taylor
Chairman of the Board and Chief Executive Officer

Dated: February 12, 2016 */s/ Tamala L. McComic*
Tamala L. McComic
President, Chief Financial Officer, Treasurer and Assistant Secretary

