

MEXCO ENERGY CORP
Form 10-Q
August 06, 2014

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 June 30, 2014

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)

Colorado
(State or other jurisdiction of
incorporation or organization)

84-0627918
(IRS Employer
Identification Number)

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

79701
(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

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Non-Accelerated Filer Smaller reporting company
(Do not check if a 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, \$0.50 par value, as of August 6, 2014 was 2,038,266.

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MEXCO ENERGY CORPORATION

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Mexco Energy Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2014	March 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 152,498	\$ 156,082
Accounts receivable:		
Oil and gas sales	596,567	628,098
Trade	12,921	18,144
Prepaid costs and expenses	61,016	28,804
Total current assets	823,002	831,128
Property and equipment, at cost		
Oil and gas properties, using the full cost method	35,757,834	35,460,741
Other	94,356	94,356
Accumulated depreciation, depletion and amortization	(18,775,989)	(18,475,174)
Property and equipment, net	17,076,201	17,079,923
Other noncurrent assets	949	7,239
Total assets	\$ 17,900,152	\$ 17,918,290
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 325,087	\$ 257,431
Income tax payable	-	6,500
Derivative instruments	59,121	44,981
Total current liabilities	384,208	308,912
Long-term debt	2,300,000	2,425,000
Asset retirement obligations	932,194	926,577
Deferred income tax liabilities	841,068	858,449
Total liabilities	4,457,470	4,518,938
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;	1,052,133	1,052,133

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2,104,266 shares issued and 2,038,266 shares outstanding as of June 30, 2014 and March 31, 2014		
Additional paid-in capital	6,945,921	6,921,645
Retained earnings	5,785,620	5,766,566
Treasury stock, at cost (66,000 shares)	(340,992)	(340,992)
Total stockholders' equity	13,442,682	13,399,352
Total liabilities and stockholders' equity	\$ 17,900,152	\$ 17,918,290

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

Mexco Energy Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
 For the Three Months Ended June 30,
 (Unaudited)

	2014	2013
Operating revenues:		
Oil and gas	\$ 1,006,656	\$ 984,269
Other	11,178	12,256
Total operating revenues	1,017,834	996,525
Operating expenses:		
Production	310,778	308,636
Accretion of asset retirement obligations	4,835	10,917
Depreciation, depletion and amortization	300,815	295,033
General and administrative	350,337	311,470
Total operating expenses	966,765	926,056
Operating income	51,069	70,469
Other income (expense):		
Interest income	2	2
Interest expense	(15,770)	(20,130)
Loss on derivative instruments	(33,628)	(27,392)
Net other expense	(49,396)	(47,520)
Earnings before provision for income taxes	1,673	22,949
Income tax (benefit) expense:		
Current	-	-
Deferred	(17,381)	6,818
	(17,381)	6,818
Net income	\$ 19,054	\$ 16,131
Income per common share:		
Basic	\$ 0.01	\$ 0.01
Diluted	\$ 0.01	\$ 0.01
Weighted average common shares outstanding:		
Basic	2,038,266	2,036,866
Diluted	2,054,847	2,038,491

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

Mexco Energy Corporation and Subsidiaries
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 (Unaudited)

	Common Stock Par Value	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance at March 31, 2014	\$ 1,052,133	\$ (340,992)	\$ 6,921,645	\$ 5,766,566	\$ 13,399,352
Net income	-	-	-	19,054	19,054
Stock based compensation	-	-	24,276	-	24,276
Balance at June 30, 2014	\$ 1,052,133	\$ (340,992)	\$ 6,945,921	\$ 5,785,620	\$ 13,442,682

SHARE ACTIVITY

Common stock
shares, issued:

Balance at March 31, 2014	2,104,266
Issued	-
Balance at June 30, 2014	2,104,266

Common stock shares, held in treasury:

Balance at March 31, 2014	(66,000)
Acquisitions	-
Balance at June 30, 2014	(66,000)

Common stock shares, outstanding
at June 30, 2014

2,038,266

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

Mexco Energy Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended June 30,
(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net income	\$ 19,054	\$ 16,131
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax (benefit) expense	(17,381)	6,818
Stock-based compensation	24,276	39,372
Depreciation, depletion and amortization	300,815	295,033
Accretion of asset retirement obligations	4,835	10,917
Loss on derivative instruments	33,628	27,392
Changes in assets and liabilities, net of business combination:		
Decrease (increase) in accounts receivable	36,754	(107,645)
Increase in prepaid expenses	(32,213)	(38,614)
Decrease in noncurrent assets	6,291	109,480
Decrease in income tax payable	(6,500)	-
Increase in accounts payable and accrued expenses	55,600	51,104
Net cash provided by operating activities	425,159	409,988
Cash flows from investing activities:		
Additions to oil and gas properties	(284,223)	(463,324)
Additions to other property and equipment	-	(931)
Settlement of asset retirement obligations	(156)	(97)
Settlement of derivatives	(19,489)	(6,335)
Proceeds from sale of oil and gas properties and equipment	125	67
Net cash used in investing activities	(303,743)	(470,620)
Cash flows from financing activities:		
Reduction of long-term debt	(125,000)	-
Net cash used in financing activities	(125,000)	-
Net decrease in cash and cash equivalents	(3,584)	(60,632)
Cash and cash equivalents at beginning of period	156,082	166,406
Cash and cash equivalents at end of period	\$ 152,498	\$ 105,774
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 15,387	\$ 20,130

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Income taxes paid	\$ 6,500	\$ -
Non-cash investing and financing activities:		
Asset retirement obligations	\$ 782	\$ 2,895

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 West Texas; however, the Company owns producing properties and undeveloped acreage in twelve 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 year end 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 June 30, 2014, and the results of its operations and cash flows for the interim periods ended June 30, 2014 and 2013. The financial statements as of June 30, 2014 and for the three month periods ended June 30, 2014 and 2013 are unaudited. The consolidated balance sheet as of March 31, 2014 was derived from the audited balance sheet filed in the Company’s 2014 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.

Reclassifications. Certain amounts in prior years' financial statements have been reclassified to conform with the current year's presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Topic 606: Revenue from Contracts with Customers. ASU No. 2014-09 is effective for Mexco as of April 1, 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 on 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 three months of fiscal 2015:

Carrying amount of asset retirement obligations as of April 1, 2014	\$961,577
Liabilities incurred	782
Liabilities settled	-
Accretion expense	4,835
Carrying amount of asset retirement obligations as of June 30, 2014	967,194
Less: Current portion	35,000
Non-Current asset retirement obligation	\$932,194

4. Stock-based Compensation

The Company recognized compensation expense of \$24,276 and \$39,372 in general and administrative expense in the Consolidated Statements of Operations for the three months ended June 30, 2014 and 2013, respectively. The total cost related to non-vested awards not yet recognized at June 30, 2014 totals approximately \$101,168 which is expected to be recognized over a weighted average of 1.84 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 three months ended June 30, 2014 and 2013. All such amounts represent the weighted average amounts.

	Three Months Ended	
	June 30	
	2014	2013
Grant-date fair value	-	\$ 4.75
Volatility factor	-	77.01%
Dividend yield	-	-
Risk-free interest rate	-	1.74%
Expected term (in years)	-	7

The following table is a summary of activity of stock options for the three months ended June 30, 2014

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Aggregate Average Remaining Contract Life in Years	Intrinsic Value
Outstanding at March 31, 2014	113,600	\$ 6.35	7.66	\$ 154,062
Granted	-	-		
Exercised	-	-		
Forfeited or Expired	-			