

MEXCO ENERGY CORP
Form 10-Q
November 14, 2011

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 September 30, 2011

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 [X]

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

The number of shares outstanding of the registrant's common stock, par value \$.50 per share, as of November 14, 2011 was 2,027,949.

MEXCO ENERGY CORPORATION

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Mexco Energy Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	September 30, 2011 (Unaudited)	March 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$79,429	\$179,071
Accounts receivable:		
Oil and gas sales	381,992	384,215
Trade	25,567	42,432
Related parties	5	-
Prepaid costs and expenses	149,943	64,479
Total current assets	636,936	670,197
Property and equipment, at cost		
Oil and gas properties, using the full cost method	30,238,628	30,426,817
Other	78,520	78,520
	30,317,148	30,505,337
Less accumulated depreciation, depletion and amortization	15,706,243	15,227,063
Property and equipment, net	14,610,905	15,278,274
	\$15,247,841	\$15,948,471
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$212,659	\$199,944
Long-term debt		
Asset retirement obligation	775,000	1,800,000
Deferred income tax liabilities	551,803	528,911
	850,627	912,663
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; 2,089,116 shares issued; 2,027,949 and 2,029,949 shares outstanding as of September 30, 2011 and March 31, 2011, respectively	1,044,558	1,044,558
Additional paid-in capital	6,632,348	6,453,226
Retained earnings	5,495,491	5,311,834
Treasury stock, at cost (61,167 and 59,167 shares, respectively)	(314,645)	(302,665)
Total stockholders' equity	12,857,752	12,506,953
	\$15,247,841	\$15,948,471

The accompanying notes are an integral part of

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the consolidated financial statements.

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Mexco Energy Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30		Six Months Ended September 30	
	2011	2010	2011	2010
Operating revenue:				
Oil and gas	\$810,655	\$783,990	\$1,715,995	\$1,616,000
Other	5,106	4,649	8,860	9,032
Total operating revenues	815,761	788,639	1,724,855	1,625,032
Operating expenses:				
Production	236,330	253,138	464,232	621,365
Accretion of asset retirement obligation	8,698	8,544	17,736	16,974
Depreciation, depletion, and amortization	234,006	267,691	479,180	519,186
General and administrative	225,261	199,544	495,561	447,683
Total operating expenses	704,295	728,917	1,456,709	1,605,208
Operating income	111,466	59,722	268,146	19,824
Other income (expenses):				
Interest income	92	22	94	26
Interest expense	(5,961)	(6,857)	(16,881)	(10,196)
Net other expense	(5,869)	(6,835)	(16,787)	(10,170)
Income before provision for income taxes	105,597	52,887	251,359	9,654
Income tax expense (benefit):				
Current	58,442	33,998	129,738	33,998
Deferred	(32,117)	(51,151)	(62,036)	(100,160)
	26,325	(17,153)	67,702	(66,162)
Net income	\$79,272	\$70,040	\$183,657	\$75,816
Earnings per common share:				
Basic	\$0.04	\$0.04	\$0.09	\$0.04
Diluted	\$0.04	\$0.04	\$0.09	\$0.04
Weighted average common shares outstanding:				
Basic	2,029,926	1,935,199	2,029,938	1,928,711
Diluted	2,036,476	1,945,893	2,041,269	1,946,420

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 March 31, 2011	\$1,044,558	\$(302,665)	\$6,453,226	\$5,311,834	\$12,506,953
Net income	-	-	-	104,385	104,385
Excess tax benefits from stock-based compensation	-	-	71,296	-	71,296
Stock based compensation	-	-	27,237	-	27,237
Balance at June 30, 2011	\$1,044,558	\$(302,665)	\$6,551,759	\$5,416,219	\$12,709,871
Net Income	-	-	-	79,272	79,272
Purchase of stock	-	(11,980)	-	-	(11,980)
Excess tax benefits from stock-based compensation	-	-	58,442	-	58,442
Stock based compensation	-	-	22,147	-	22,147
Balance at September 30, 2011	\$1,044,558	\$(314,645)	\$6,632,348	\$5,495,491	\$12,857,752

SHARE ACTIVITY

Common stock shares, issued:

Balance at March 31, 2011	2,089,116
Issued	-
Balance at June 30, 2011	2,089,116
Issued	-
Balance at Sept. 30, 2011	2,089,116

Common stock shares, held in treasury:

Balance at March 31, 2011	(59,167)
Acquisitions	-
Balance at June 30, 2011	(59,167)
Acquisitions	(2,000)
Balance at Sept. 30, 2011	(61,167)

Common stock shares, outstanding at September 30, 2011

2,027,949

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

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

	2011		2010
Cash flows from operating activities:			
Net income	\$ 183,657		\$ 75,816
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax benefit	(62,036)	(100,160
Excess tax benefit from share based payment arrangement	(129,738)	(33,998
Stock-based compensation	49,384		17,422
Depreciation, depletion and amortization	479,180		519,186
Accretion of asset retirement obligations	17,736		16,974
Changes in assets and liabilities:			
Decrease in accounts receivable	19,083		178,513
Increase in prepaid expenses	(85,464)	(94,310
Increase in income taxes payable	129,738		33,998
Increase (decrease) in accounts payable and accrued expenses	34,700		(15,574
Net cash provided by operating activities	636,240		597,867
Cash flows from investing activities:			
Additions to oil and gas properties	(291,248)	(1,631,713
Acquisition of business	-		(478,000
Additions to other property and equipment	-		(2,359
Proceeds from sale of oil and gas properties and equipment	462,608		1,653
Net cash provided by (used in) investing activities	171,360		(2,110,419
Cash flows from financing activities:			
Proceeds from exercise of stock options	-		10,875
Acquisition of treasury stock	(11,980)	-
Reduction of long-term debt	(1,025,000)	(445,000
Proceeds from long-term debt	-		1,895,000
Excess tax benefit from share based payment arrangement	129,738		33,998
Net cash (used in) provided by financing activities	(907,242)	1,494,873
Net decrease in cash and cash equivalents	(99,642)	(17,679
Cash and cash equivalents at beginning of period	179,071		160,439
Cash and cash equivalents at end of period	\$ 79,429		\$ 142,760
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 17,492		\$ 8,764
Income taxes paid	-		-
Non-cash investing and financing activities:			
Asset retirement obligations	\$ 5,156		\$ 8,064
Issuance of common stock in exchange for oil and gas properties	-		\$ 164,756

Acquisition of Southwest Texas Disposal Corporation resulting in the assumption of liabilities as follows:

Fair value of assets	\$-	\$487,868
Cash paid	-	(478,000)
Liabilities assumed	\$-	\$9,868

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) and Southwest Texas Disposal Corporation (a Texas corporation) (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 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 September 30, 2011, and the results of its operations and cash flows for the interim periods ended September 30, 2011 and 2010. The financial statements as of September 30, 2011 and for the three and six month periods ended September 30, 2011 and 2010 are unaudited. The consolidated balance sheet as of March 31, 2011 was derived from the audited balance sheet filed in the Company’s 2011 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.

Gas Balancing. Gas imbalances are accounted for under the sales method whereby revenues are recognized based on production sold. A liability is recorded when our excess takes of natural gas volumes exceeds our estimated remaining recoverable reserves (over produced). No receivables are recorded for those wells where the Company has taken less than its ownership share of gas production (under produced). The Company does not have any significant gas imbalances.

Recent Accounting Pronouncements. In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, Topic 820: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 clarifies application of fair value measurements and disclosure requirements and is effective for annual periods beginning after December 15, 2011. For many of the requirements, the FASB does not intend the amendments to change the application of the existing Fair Value Measurements guidance. The Company anticipates the guidance will have no impact on its financial position or results of operations.

There were various other accounting standards and interpretations issued during the reporting period, all of which have been determined to be not applicable or significant by management and once adopted are not expected to have a material impact on the Company's 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 following table provides a rollforward of the AROs for the first six months of fiscal 2012:

Carrying amount of asset retirement obligations as of April 1, 2011	\$578,911
Liabilities incurred	5,156
Liabilities settled	-
Accretion expense	17,736
Carrying amount of asset retirement obligations as of September 30, 2011	601,803
Less: Current portion	50,000
Non-Current asset retirement obligation	\$551,803

The ARO is included on the consolidated balance sheets with the current portion being included in the accounts payable and other accrued expenses.

4. Stock-based Compensation

The Company recognized compensation expense of \$22,147 and \$13,754 in general and administrative expense in the Consolidated Statements of Operations for the three months ended September 30, 2011 and 2010, respectively. Compensation expense recognized for the six months ended September 30, 2011 and 2010 was \$49,384 and \$17,422, respectively. The total cost related to non-vested awards not yet recognized at September 30, 2011 totals approximately \$93,000 which is expected to be recognized over a weighted average of 2.7 years.

The fair value of each stock option is estimated on the date of grant using the Binomial valuation model. Expected volatilities are based on historical volatility of the Company's stock over the expected term of 84 months and other factors. We use historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. As the Company has never declared dividends, no dividend yield is used in the calculation. Actual value realized, if any, is dependent on the future performance of the Company's common stock and overall stock market conditions. There is no assurance the value realized by an optionee will be at or near the value estimated by the Binomial model.

There were no stock options granted during the six months ended September 30, 2011. During the six months ended September 30, 2010, stock options covering 42,500 shares were granted.

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 six months ended September 30, 2010. All such amounts represent the weighted average amounts.

Grant-date fair value	\$5.15
Volatility factor	82.83%
Dividend yield	-
Risk-free interest rate	2.07%
Expected term (in years)	7

The following table is a summary of activity of stock options for the six months ended September 30, 2011:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life in Years	Aggregate Intrinsic Value
Outstanding at March 31, 2011	53,750	\$5.69	7.33	\$401,200
Granted	-	-		
Exercised	-	-		
Forfeited or Expired	-	-		
Outstanding at September 30, 2011	53,750	\$5.69	6.83	\$19,575
Vested at September 30, 2011	20,000	\$5.12	4.78	\$18,675
Exercisable at September 30, 2011	20,000	\$5.12	4.78	\$18,675

During the six months ended September 30, 2011, no stock options were exercised. During the six months ended September 30, 2010, stock options covering 2,500 shares were exercised with a total intrinsic value of \$12,429.

The following table summarizes information about options outstanding at September 30, 2011:

Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life in Years	Aggregate Intrinsic Value
\$4.00 – 5.24	13,750	\$4.10		
5.25 – 6.29	40,000	6.23		
\$4.00 – 6.29	53,750	\$5.69	6.83	\$19,575

Outstanding options at September 30, 2011 expire between May 2012 and September 2020 and have exercise prices ranging from \$4.00 to \$6.29.

No forfeiture rate is assumed for stock options granted to directors or employees due to the forfeiture rate history for these types of awards. There were no stock options forfeited or expired during the six months ended September 30, 2011. During the six months ended September 30, 2010, 7,500 unvested stock options were forfeited due to the termination of a consulting agreement with a consultant.

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. In accordance with the reporting requirements of FASB ASC Topic 825, Financial Instruments, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments.

The initial measurement of asset retirement obligations' fair value is calculated using discounted cash flow techniques and is based on internal estimates of future retirement costs associated with oil and gas properties. Given the unobservable nature of the inputs, including plugging costs and reserve lives, the initial measurement of the ARO liability is deemed to use Level 3 inputs. See the Company's note on AROs for further discussion. AROs incurred during the six months ended September 30, 2011 were approximately \$5,000.

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

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 \$4,900,000 with no monthly commitment reductions and a borrowing base evaluated annually set at \$4,900,000. Amounts borrowed under the Agreement are collateralized by the common stock of one of the Company's wholly owned subsidiaries and substantially all of the Company's oil and gas properties. Availability of this line of credit at September 30, 2011 was \$4,125,000. No principal payments are anticipated to be required through November 30, 2012.

The Agreement was renewed four times with the fourth amendment on October 22, 2010, which revised the maturity date to November 30, 2012. 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 2.74% on September 30, 2011. 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.

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 September 30, 2011. In addition, this Agreement prohibits the Company from paying cash dividends on our common stock.

As of September 30, 2011, a letter of credit for \$50,000, in lieu of a plugging bond with the Texas Railroad Commission covering the properties the Company operates is also outstanding under the facility. This letter of credit renews annually.

The balance outstanding on the line of credit as of September 30, 2011 was \$775,000 and \$750,000 as of November 14, 2011.

The following table is a summary of activity on the Bank of America, N.A. line of credit for the six months ended September 30, 2011:

Balance at March 31, 2011:	\$	Principal 1,800,000
Borrowings		-
Repayments		(1,025,000)
Balance at September 30, 2011:	\$	775,000

7. Income Taxes

The Company recognizes deferred tax assets and liabilities for future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates applicable to the years in which those differences are expected to be settled. The

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effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period that includes the enactment date.

The income tax provision consists of the following for the three and six months ended September 30, 2011 and 2010:

	Three Months Ended September 30		Six Months Ended September 30		
	2011	2010	2011	2010	
Current income tax expense	\$58,442	\$33,998	\$129,738	\$33,998	
Deferred income tax expense (benefit)	(32,117)	(51,151)	(62,036)	(100,160)	
Total income tax provision:	\$26,325	\$(17,153)	\$67,702	\$(66,162)	
Effective tax rate	25	% (32	%) 27	% (685	%)

As of September 30, 2011, the Company has a statutory depletion carryforward of approximately \$3,900,000, which does not expire. At September 30, 2011, there was a net operating loss carryforward for regular income tax reporting purposes of approximately \$1,800,000, which will begin expiring in 2021. The Company's ability to use the net operating loss carryforward and certain other tax attributes to reduce current and future U.S. federal taxable income is subject to limitations under the Internal Revenue Code.

Any interest and penalties related to uncertain tax positions are recorded as interest expense and general and administrative expense, respectively. As of September 30, 2011, the Company had unrecognized tax benefits of approximately \$550,000.

8. 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 six months ended September 30, 2011 and 2010 was \$54,919 and \$61,407, respectively.

9. Income Per Common Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income 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 income by the weighted average number of common shares 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 income per share and diluted income per share for the three and six month periods ended September 30, 2011 and 2010.

	Three Months Ended September 30		Six Months Ended September 30	
	2011	2010	2011	2010
Net income	\$79,272	\$70,040	\$183,657	\$75,816
Shares outstanding:				
Weighted avg. common shares outstanding – basic	2,029,926	1,935,199	2,029,938	1,928,711
Effect of the assumed exercise of dilutive stock options	6,550	10,694	11,331	17,709
Weighted avg. common shares outstanding – dilutive	2,036,476	1,945,893	2,041,269	1,946,420
Earnings per common share:				
Basic	\$0.04	\$0.04	\$0.09	\$0.04
Diluted	\$0.04	\$0.04	\$0.09	\$0.04

For the three and six month periods ending September 30, 2011, 30,000 options were excluded from the diluted net income per share calculations. Anti-dilutive stock options have a weighted average exercise price of \$6.29 at September 30, 2011. For the three and six month periods ending September 30, 2010, 91,250 options were excluded

from the diluted net income per share calculations. Anti-dilutive stock options have a weighted average exercise price of \$6.81 at September 30, 2010.

10. Subsequent Events

On October 5, 2011, the Company repurchased 2,000 shares for the treasury at an aggregate cost of \$10,800.

The Company completed a review and analysis of all events that occurred after the balance sheet date has determined that there are no other subsequent events to be disclosed.

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 this 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 primarily gas properties and secondarily oil properties with potential for long-lived production. We focus our efforts on the acquisition of royalties in areas with significant development potential.

For the first six months of fiscal 2012, cash flow from operations was \$636,240, a 6% increase when compared to the corresponding period of fiscal 2011. Cash of \$291,248 was used for additions to oil and gas properties, \$1,025,000 was used to reduce long term debt and \$462,608 was received primarily from the sale of a term leasehold interest in oil and gas properties. Accordingly, net cash decreased \$99,642. This decrease in cash can be primarily attributed to the use of cash for financing activities.

In March 2011, we purchased working interests in 160 gross acres in the Fuhrman-Mascho Field of Andrews County, Texas, for an approximate cash purchase price of \$670,000 funded from our \$4.9 million credit facility. This acreage contains five (5) wells, three of which are producing from the San Andres, one well producing from the Grayburg and San Andres formations at an approximate depth of 5,000 feet and one well currently undergoing a workover. Two additional wells have been drilled and are currently in the process of completion. All seven (7) of these wells are operated by Cone and Petree Oil & Gas Exploration, Inc. The Company owns working interests of approximately 10% (7.2% net revenue interest) in this property. This property contains an additional 9 potential drill sites in the Grayburg and San Andres formations with more dense spacing of approximately 10 acres per well. This new spacing in the Fuhrman-Mascho Field has been shown to increase production.

During the first quarter of fiscal 2012, we participated in five (5) infill wells in the Yeso/Paddock formations of the Dodd-Federal Unit in the Grayburg San Andres Jackson Field of Eddy County, New Mexico. These wells are proposed to be drilled in the next twelve months to a total depth of approximately 5,000 feet. The unit, operated by Concho Resources, Inc. (NYSE: CXO), currently contains approximately 115 producing wells. Mexco's working

interest in this unit is .1848% (.14% net revenue interest).

In June 2011, we received \$450,000 in cash from Energen Corporation (NYSE:EGN) for the assignment of a five year term leasehold interest in 200 acres at \$2,250 per acre. The assignment covers depths of 7,680' to 11,500' feet from the surface. Mexco retained a royalty of 8.33%. This interest has potential for oil production from the Avalon and Bone Springs in separate intervals by horizontal drilling above the prolific Vermejo Fusselman Gas Field of Loving County, Texas.

During the first six months of fiscal 2012, a joint venture in which we are a working interest partner drilled two (2) infill wells in the Strawn formation on a 160 acre tract in Andrews County, Texas. The section in which this tract is located currently contains 12 wells completed with encouraging results. Our share of the costs to drill and complete these wells through September 2011 for our approximately 1% working interest was approximately \$53,000.

During the second quarter of fiscal 2012, a joint venture in which we are a working interest partner drilled two (2) infill wells in the Strawn formation on a 160 acre tract in Glasscock County, Texas. The immediate offsetting sections in which this tract is located currently contain 14 wells completed with encouraging results. Our share of the costs to drill and complete these wells through September 2011 for our approximately 1% working interest was approximately \$62,000.

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.

On June 29, 2011, our board of directors authorized the use of up to \$250,000 to repurchase shares of our common stock for the treasury account. During the six months ended September 30, 2011, we repurchased 2,000 shares for the treasury at an aggregate cost of \$11,980.

At September 30, 2011, we had working capital of approximately \$424,277 compared to working capital of \$470,253 at March 31, 2011, a decrease of \$45,976. This was mainly as a result of a decrease in accounts receivable and an increase in accounts payable and accrued expenses partially offset by an increase in prepaid costs and expenses.

Crude oil and natural gas prices have fluctuated significantly in recent years. The effect of declining product prices on our business is significant. 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 \$75.25 per bbl in August and September 2011 to a high of \$110.00 per bbl in April 2011. The Henry Hub Spot Market Price (“Henry Hub”) for natural gas has ranged from a low of \$3.18 per MMBtu in October 2010 to a high of \$4.92 per MMBtu in June 2011. On September 30, 2011 the WTI posted price for crude oil was \$75.25 per bbl and the Henry Hub spot price for natural gas was \$3.68 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 current 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 September 30, 2011:

	Payments Due In (1):			
	Total	less than 1 year	1-3 years	3 years
Contractual obligations:				
Secured bank line of credit	\$775,000	\$-	\$775,000	\$-

(1) Does not include estimated interest of \$21,000 less than 1 year and \$64,000 1-3 years.

These amounts represent the balances outstanding under the bank line of credit. These repayments assume that interest will be paid on a monthly basis and that no additional funds will be drawn.

Results of Operations – Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010. Net income was \$79,272 for the quarter ended September 30, 2011, a 13% increase from \$70,040 for the quarter ended September 30, 2010. This was a result of a 3% increase in operating revenues and a 3% decrease in operating expenses costs partially offset by a 253% increase in tax expense.

Oil and gas sales. Revenue from oil and gas sales was \$810,655 for the second quarter of fiscal 2012, a 3% increase from \$783,990 for the same period of fiscal 2011. This resulted from an increase in oil price and production partially offset by a decrease in gas price and production.

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	2011	2010	% Difference	
Oil:				
Revenue	\$419,128	\$318,059	31.8	%
Volume (bbls)	4,923	4,469	10.2	%
Average Price (per bbl)	\$85.14	\$71.17	19.6	%
Gas:				
Revenue	\$391,527	\$465,931	(16.0)	(%)
Volume (mcf)	101,106	115,887	(12.8)	(%)
Average Price (per mcf)	\$3.87	\$4.02	(3.7)	(%)

Production and exploration. Production costs were \$236,330 for the second quarter of fiscal 2012, a 7% decrease from \$253,138 for the same period of fiscal 2011. This was primarily the result of a workover and repairs on one of our operated wells in Hutchinson County, Texas during the second quarter of fiscal 2011.

Depreciation, depletion and amortization. Depreciation, depletion and amortization expense was \$234,006 for the second quarter of fiscal 2012, a 13% decrease from \$267,691 for the same period of fiscal 2011, primarily due to a decrease in gas production partially offset by an increase to the full cost pool amortization base.

General and administrative expenses. General and administrative expenses were \$225,261 for the second quarter of fiscal 2012, a 13% increase from \$199,544 for the same period of fiscal 2011. This was due to an increase in stock option compensation expense and accounting fees.

Interest expense. Interest expense was \$5,961 for the second quarter of fiscal 2012, a 13% decrease from \$6,857 for the same period of fiscal 2011, due to a decrease in borrowings.

Income taxes. Income tax expense was \$26,325 for the three months ended September 30, 2011, an increase from an income tax benefit of \$17,153 for the three months ended September 30, 2010. The previous year's benefit was primarily a result of an increase in the statutory depletion carryforward.

Results of Operations – Six Months Ended September 30, 2011 Compared to Six Months Ended September 30, 2010. Net income was \$183,657 for the six months ended September 30, 2011, a 142% increase from \$75,816 for the six months ended September 30, 2010. This was a result of a 6% increase in operating revenues and a 9% decrease in operating expenses costs partially offset by a 202% increase in tax expense.

Oil and gas sales. Revenue from oil and gas sales was \$1,715,995 for the six months ended September 30, 2011, a 6% increase from \$1,616,000 for the same period of fiscal 2011. This resulted from an increase in oil price and production partially offset by a decrease in gas price and production.

	2011	2010	% Difference	
Oil:				
Revenue	\$862,985	\$653,116	32.1	%
Volume (bbls)	9,483	8,985	5.5	%
Average Price (per bbl)	\$91.00	\$72.69	25.2	%
Gas:				
Revenue	\$853,010	\$962,884	(11.4)	(%)
Volume (mcf)	209,453	235,944	(11.2)	(%)
Average Price (per mcf)	\$4.07	\$4.08	-	

Production and exploration. Production costs were \$464,232 for the six months ended September 30, 2011, a 25% decrease from \$621,365 for the six months ended September 30, 2010. This was primarily the result of a workover and repairs on one of our operated wells in Hutchinson County, Texas during the first six months of fiscal 2011.

Depreciation, depletion and amortization. Depreciation, depletion and amortization expense was \$479,180 for the six months ended September 30, 2011, an 8% decrease from \$519,186 for the six months ended September 30, 2010, primarily due to an increase in oil and natural gas reserves and to a lesser extent, a decrease in gas production.

General and administrative expenses. General and administrative expenses were \$495,561 for the six months ended September 30, 2011, an 11% increase from \$447,683 for the six months ended September 30, 2010. This was due to an increase in stock option compensation and accounting fees.

Interest expense. Interest expense was \$16,881 for the six months ended September 30, 2011, a 66% increase from \$10,196 for the same period fiscal 2011 due to an increase in borrowings.

Income taxes. Income tax expense was \$67,702 for the six months ended September 30, 2011, an increase from an income tax benefit of \$66,162 for the six months ended September 30, 2010. The fiscal 2011 benefit was primarily a result of an increase in statutory depletion carryforward.

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. At September 30, 2011, we had not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other similar agreements relating to crude oil and natural gas.

Interest Rate Risk. At September 30, 2011, we had an outstanding loan balance of \$775,000 under our \$4.9 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 \$7,750 based on the outstanding balance at September 30, 2011.

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 September 30, 2011, our largest credit risk associated with any single purchaser was \$49,724 or 13% 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 September 30, 2011, our largest credit risk associated with any working interest partner was \$2,327 or 9% of our total trade receivable. 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. Historically, the markets for oil and gas have been volatile, and they are likely to continue to be volatile. 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 one dollar per barrel for the first six months of fiscal 2012, our net income would have changed by \$9,483. If the average gas price had increased or decreased by one dollar per mcf for the first six months of fiscal 2012, our net income would have changed by \$209,453.

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(e) and 15d-15(e). Based on such evaluation, such officers concluded that, as of September 30, 2011, our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is disclosed within the time periods specified in the SEC’s rules and forms and are effective to ensure that information required to be disclosed by us is accumulated and communicated to them to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. No changes in our internal control over financial reporting occurred during the quarter ended September 30, 2011 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 2011 Annual Report on Form 10-K.

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

c. Issuer Purchases of Equity Securities

On June 29, 2011, our board of directors authorized the use of up to \$250,000 to repurchase shares of our common stock for the treasury account. This program does not have an expiration date. Under the repurchase program, shares of common stock may be purchased from time to time through open market purchases or other transactions. The amount and timing of repurchases will be subject to the availability of stock, prevailing market conditions, the trading price of the stock, our financial performance and other conditions. Repurchases may also be made from time-to-time in connection with the settlement our share-based compensation awards. Repurchases will be funded from cash flow from operations. The following table provides information related to repurchases of our common stock for the treasury account during the 6 months ended September 30, 2011:

Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (1)

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July 1-31, 2011	-	-	-	\$250,000
August 1-31, 2011	-	-	-	\$250,000
September 1-30, 2011	2,000	\$5.99	2,000	\$238,020

(1) The program authorizing the use of up to \$250,000 to repurchase shares of our common stock for the treasury account was approved by the board of directors on June 29, 2011 and does not have an expiration date. As of September 30, 2011, 2,000 shares of Mexco's common stock have been purchased for a total of \$11,980. Subsequently, in October 2011, an additional 2,000 shares of our common stock were purchased for the treasury at a share price of \$5.40 for a total of \$10,800.

Item 5.

Other Information

By letter dated October 27, 2011, Thomas Graham, Jr. notified the registrant of his retirement from the Board of Directors, Compensation Committee, Audit Committee and Nominating Committee in order to devote more of his time to other projects. Such resignation is to be effective December 1, 2011. Mr. Graham stated he had no disagreements with the registrant on any matter relating to its operations, policies or practices.

On December 1, 2011, the Board of Directors will appoint Kenneth L. Clayton as a member of the Audit, Compensation and Nominating Committees.

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

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.

M E X C O E N E R G Y
CORPORATION
(Registrant)

Dated: November 14, 2011

/s/ Nicholas C. Taylor
Nicholas C. Taylor
Chairman of the Board and Chief Executive Officer

Dated: November 14, 2011

/s/ Tamala L. McComie
Tamala L. McComie
President, Chief Financial Officer, Treasurer and Assistant
Secretary