

MEXCO ENERGY CORP  
Form 10-K  
July 01, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2013

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

Commission File No. 0-6694

MEXCO ENERGY CORPORATION  
(Exact name of registrant as specified in its charter)

Colorado  
(State or other jurisdiction of  
incorporation or organization)

84-0627918  
(I.R.S. Employer  
Identification No.)

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

79701  
(Zip Code)

Registrant's telephone number, including area code: (432) 682-1119

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.50 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 twelve (12) months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past ninety (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

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submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  
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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" 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 aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 30, 2012 (the last business day of the Registrant's most recently completed second quarter) was \$6,062,046 based on Mexco Energy Corporation's closing common stock price of \$6.65 per share on that date as reported by the NYSE MKT.

There were 2,036,866 shares of the registrant's common stock outstanding as of July 1, 2013.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relating to the 2013 Annual Meeting of Shareholders to be held on September 10, 2013, have been incorporated by reference in Part III of this Form 10-K. Such Proxy Statement will be filed with the Commission not later than 120 days after March 31, 2013, the end of the fiscal year covered by this report.

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As used in this document, “the Company”, “Mexco”, “we”, “us” and “our” refer to Mexco Energy Corporation and consolidated subsidiaries.

Abbreviations or definitions of certain terms commonly used in the oil and gas industry and in this Form 10-K can be found in the “Glossary of Abbreviations and Terms”.

## PART I

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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”). These forward-looking statements are generally located in the material set forth under the headings “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business”, “Properties” but may be found in other locations as well, and are typically identified by the words “could”, “should”, “expect”, “project”, “estimate”, “believe”, “anticipate”, “intend”, “budget”, “plan”, “forecast”, “predict” and other similar expressions.

Forward-looking statements generally relate to our 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 and are based upon our management’s reasonable estimates of future results or trends. Actual results in future periods may differ materially from those expressed or implied by such forward-looking statements because of a number of risks and uncertainties affecting our business, including those discussed in “Risk Factors”. The factors that may affect our expectations regarding our operations include, among others, the following: our success in development, exploitation and exploration activities; our ability to make planned capital expenditures; declines in our production or prices of oil and gas; our ability to raise equity capital or incur additional indebtedness; our restrictive debt covenants; our acquisition and divestiture activities; weather conditions and events; the proximity, capacity, cost and availability of pipelines and other transportation facilities; increases in the cost of drilling, completion and gas gathering or other costs of production and operations; and other factors discussed elsewhere in this document.

We disclaim any intention or obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise.

## ITEM 1. BUSINESS

### General

Mexco Energy Corporation, a Colorado corporation, is an independent oil and gas company engaged in the exploration, development and production of natural gas and crude oil properties located in the United States. Incorporated in April 1972 under the name Miller Oil Company, the Company changed its name to Mexco Energy Corporation effective April 30, 1980. At that time, the shareholders of the Company also approved amendments to the Articles of Incorporation resulting in a one-for-fifty reverse stock split of the Company’s common stock.

On December 31, 2012, Mexco acquired all of the outstanding ownership interests of TBO Oil & Gas, LLC, a Texas limited liability company which owns non-operated working interests producing primarily oil.

In September 2010, Mexco acquired all of the issued and outstanding stock of Southwest Texas Disposal Corporation, a Texas corporation which owns royalties producing primarily natural gas.

On February 25, 1997, Mexco acquired all of the issued and outstanding stock of Forman Energy Corporation, a New York corporation also engaged in oil and gas exploration and development.

Our total estimated proved reserves at March 31, 2013 were approximately 7.844 billion cubic feet (“Bcf”) of natural gas and 366,000 barrels (“bbls”) of oil and natural gas liquids, and our estimated present value of proved reserves was approximately \$18.0 million based on estimated future net revenues excluding taxes discounted at 10% per annum, pricing and other assumptions set forth in “Item 2 – Properties” below. During fiscal 2013, we added proved reserves of 348,000 thousand cubic feet equivalent (“Mcf”) through extensions and discoveries, added 359,000 Mcfe through acquisitions and had downward revisions of previous estimates of 649,000 Mcfe.

Nicholas C. Taylor beneficially owns approximately 44% of the outstanding shares of our common stock. Mr. Taylor is also our Chairman of the Board and Chief Executive Officer. As a result, Mr. Taylor has significant influence in matters voted on by our shareholders, including the election of our Board members. Mr. Taylor participates in all facets of our business and has a significant impact on both our business strategy and daily operations.

### Company Profile

Since our inception, we have been engaged in acquiring and developing oil and gas properties and the exploration for and production of natural gas, crude oil, condensate and natural gas liquids (“NGLs”) within the United States. We have focused primarily on acquiring natural gas reserves until 2011 when we changed our focus to oil. We especially seek to acquire proved reserves that fit well with existing operations or in areas where Mexco has established production. Acquisitions preferably will contain most of their value in producing wells, behind pipe reserves and high quality proved undeveloped locations. Competition for the purchase of proved reserves is intense. Sellers often utilize a bid process to sell properties. This process usually intensifies the competition and makes it extremely difficult to acquire reserves without assuming significant price and production risks. We actively search for opportunities to acquire proved oil and gas properties. However, because the competition is intense, we cannot give any assurance that we will be successful in our efforts during fiscal 2014.

While we own oil and gas properties in other states, the majority of our activities are centered in West Texas. We acquire interests in producing and non-producing oil and gas leases from landowners and leaseholders in areas considered favorable for oil and gas exploration, development and production. In addition, we may acquire oil and gas interests by joining in oil and gas drilling prospects generated by third parties. We may also employ a combination of the above methods of obtaining producing acreage and prospects. In recent years, we have placed primary emphasis on the evaluation and purchase of producing oil and gas properties, both working and royalty interests, and prospects that could have a potentially meaningful impact on our reserves.

### Oil and Gas Operations

As of March 31, 2013, natural gas constituted approximately 78% of our total proved reserves and approximately 36% of our revenues for fiscal 2013. Revenues from oil and gas royalty interests accounted for approximately 28% of our revenues for fiscal 2013.

Newark East (Barnett Shale) Gas Field properties, encompassing 6,512 gross acres, 62 net acres, 154 gross producing wells and 1 net well in Denton, Johnson, Tarrant and Wise Counties, Texas, account for approximately 4% of our discounted future net cash flows from proved reserves as of March 31, 2013. For fiscal 2013, this field, consisting of royalty interests, accounted for 7% of our gross revenues, 10% of our net revenues.

El Cinco Gas Field properties, encompassing 1,166 gross acres, 886 net acres, 8 gross producing wells and 6 net wells in Pecos County, Texas, account for approximately 33% of our discounted future net cash flows from proved reserves as of March 31, 2013. This is a multi-pay area where most of the leases have potential reserves in two zones. Of these discounted future net cash flows from proved reserves, approximately 18% are attributable to proven undeveloped reserves which will be developed through re-entry of existing wells and new drilling. For fiscal 2013,



these properties accounted for 16% of our gross revenues and 13% of our net revenues.

Gomez Gas Field properties, encompassing 13,058 gross acres, 72 net acres, 26 gross wells and .13 net wells in Pecos County, Texas, account for approximately 2% of our discounted future net cash flows from proved reserves as of March 31, 2013. For fiscal 2013, these properties accounted for 3% of our gross revenues and 4% of our net revenues. All of these properties, except for one, are royalty interests.

The Haynesville area natural gas properties, encompassing 5,135 gross acres, 13 net acres, 8 gross producing wells and .02 net wells in DeSoto Parish, Louisiana, account for approximately 3% of our discounted future net cash flows from proved reserves as of March 31, 2013. Of these discounted future net cash flows from proved reserves, approximately 2% are attributable to proven undeveloped reserves. For fiscal 2013, these properties, consisting of royalty interests, accounted for 1.5% of our gross revenues, 2% of our net revenues. This acreage contains an additional 56 potential drill sites.

The Fuhrman-Mascho field oil properties, encompassing 160 gross acres, 19 net acres, 9 gross producing wells and 1.05 net wells in Andrews County, Texas, account for approximately 4% of our discounted future net cash flows from proved reserves as of March 31, 2013. For fiscal 2013, these properties accounted for 7% of our gross and net revenues. This acreage contains an additional 7 potential drill sites.

We own approximately 1,477 gross and 737 net acres of material undeveloped acreage located above and below the Pembroke Unit of Upton County, Texas which is operated by Pioneer Natural Resources USA, Inc. and held by production from approximately 200 wells. This acreage has the potential for development in the horizontal Wolfcamp formation centered in the southern Midland Basin.

We own interests in and operate 18 producing wells and 1 water injection well. We own partial interests in an additional 3,269 producing wells located in the states of Texas, New Mexico, Oklahoma, Louisiana, Alabama, Mississippi, Arkansas, Wyoming, Kansas, Colorado, Montana and North Dakota. Additional information concerning these properties and our oil and gas reserves is provided below.

The following table indicates our oil and gas production in each of the last five years, all of which is located within the United States:

Year	Oil(Bbls)	Gas (Mcf)
2013	23,260	401,077
2012	19,442	395,649
2011	17,040	459,446
2010	18,036	545,991
2009	17,065	542,099

## Competition and Markets

The oil and gas industry is a highly competitive business. Competition for oil and gas reserve acquisitions is significant. We may compete with major oil and gas companies, other independent oil and gas companies and individual producers and operators, some of which have financial and personnel resources substantially in excess of those available to us. As a result, we may be placed at a competitive disadvantage. Competitive factors include price, contract terms and types and quality of service, including pipeline distribution. The price for oil and gas is widely followed and is generally subject to worldwide market factors. Our ability to acquire and develop additional properties in the future will depend upon our ability to conduct operations, to evaluate and select suitable properties and to consummate transactions in this highly competitive environment in a timely manner.

In addition, the oil and gas industry as a whole also competes with other industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers. The price and availability of alternative energy sources could adversely affect our revenue.

Market factors affect the quantities of oil and natural gas production and the price we can obtain for the production from our oil and natural gas properties. Such factors include: the extent of domestic production; the level of imports of foreign oil and natural gas; the general level of market demand on a regional, national and worldwide basis; domestic and foreign economic conditions that determine levels of industrial production; political events in foreign oil-producing regions; and variations in governmental regulations including environmental, energy conservation and tax laws or the imposition of new regulatory requirements upon the oil and natural gas industry.

The market for our oil, gas and natural gas liquids production depends on factors beyond our control including: domestic and foreign political conditions; the overall level of supply of and demand for oil, gas and natural gas liquids; the price of imports of oil and gas; weather conditions; the price and availability of alternative fuels; the proximity and capacity of gas pipelines and other transportation facilities; and overall economic conditions.

## Major Customers

We made sales to the following companies that amounted to 10% or more of revenues for the year ended March 31:

	2013	2012	2011
Holly Refining	26%	22%	13%
Chesapeake Operating	-	-	14%

Because a ready market exists for oil and gas production, we do not believe the loss of any individual customer would have a material adverse effect on our financial position or results of operations.

## Regulation

Our exploration, development, production and marketing operations are subject to various types of extensive rules and regulations by federal, state and local authorities. Numerous federal, state and local departments and agencies have issued rules and regulations binding on the oil and gas industry, some of which carry substantial penalties for noncompliance. State statutes and regulations require permits and bonds for drilling operations and reports concerning operations. Most states and some counties and municipalities in which we operate regulate the location of wells; the method of drilling and casing wells; the rates of production or "allowables"; the surface use and restoration of properties upon which wells are drilled; the plugging and abandoning of wells; and notice to, and consultation with, surface owners and other third parties.

There are regulations governing the unitization and pooling of oil and gas properties, the establishment of maximum rates of production from oil and gas wells and the spacing of such wells. State laws regulate the size and shape of drilling and spacing units or proration units and govern the pooling of oil and natural gas properties. Some states allow forced pooling or integration of tracts to facilitate exploration, while other states rely on voluntary pooling of lands and leases. In some instances, forced pooling or unitization may be implemented by third parties and may reduce our interest in the unitized properties. Conservation laws and regulations may limit the rate at which oil and gas otherwise could be produced from our properties, generally prohibit the venting or flaring of natural gas, and impose requirements regarding the ratable production. These laws and regulations generally are intended to prevent waste of oil and natural gas, and to protect correlative rights to produce oil and natural gas by assigning allowable rates of production to each well or proration unit. Moreover, each state generally imposes a production or severance tax with respect to the production and sale of oil, natural gas and natural gas liquids within its jurisdiction.

The regulatory burden on the oil and gas industry increases its cost of doing business and, consequently, affects its profitability. Because these rules and regulations are frequently amended or reinterpreted, we are not able to predict the future cost or impact of complying with such laws.

The Federal Energy Regulatory Commission ("FERC") regulates under the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978, interstate natural gas transportation rates and service conditions, which affect the marketing of natural gas we produce, as well as the revenues we receive for sales of such production. Since 1978, various laws have been enacted which have significantly altered the marketing and transportation of gas. These orders resulted in a fundamental restructuring of interstate pipeline sales and transportation services, including the unbundling by interstate pipelines of the sales, transportation, storage and other components of the city-gate sales services such pipelines previously performed. Commencing in 1985, the FERC promulgated a series of orders, regulations and rule makings that significantly fostered competition in the business of transporting and marketing gas. Today, interstate pipeline companies are required to provide nondiscriminatory transportation services to producers, marketers and other shippers, regardless of whether such shippers are affiliated with an interstate pipeline company. FERC's

initiatives have led to the development of a competitive, unregulated, open access market for gas purchases and sales that permits all purchasers of gas to buy gas directly from third-party sellers other than pipelines. However, the natural gas industry historically has been very heavily regulated. Therefore, we cannot guarantee that the less stringent regulatory approach will continue indefinitely into the future, nor can we determine what effect, if any, future regulatory changes might have on our natural gas related activities.

Sales of crude oil, condensate and natural gas liquids are not currently regulated and are made at negotiated market prices. Nevertheless, Congress could reenact price controls in the future. The price we receive from the sale of these products is affected by the cost of transporting the products to market. The FERC regulates interstate crude oil pipeline transportation rates under the Interstate Commerce Act. In general, interstate crude oil pipeline rates must be cost-based, although many pipeline charges are today based on historical rates adjusted for inflation and other factors, and other charges may result from settlement rates agreed to by all shippers or market-based rates, which are permitted in certain circumstances. Intrastate crude oil pipeline transportation rates are subject to regulation by state regulatory commissions. Insofar as the interstate and intrastate transportation rates that we pay are generally applicable to all comparable shippers, we believe that the regulation of crude oil transportation rates will not affect our operations in a way that materially differs from the effect on the operations of our competitors who are similarly situated. Further, interstate and intrastate common carrier crude oil pipelines must provide service on an equitable basis. Under this standard, common carriers must offer service to all similarly situated shippers requesting service on the same terms and under the same rates. When crude oil pipelines operate at full capacity, access is governed by prorating provisions set forth in the pipelines' published tariffs. Accordingly, we believe that access to crude oil pipeline transportation services generally will be available to us to the same extent as to our similarly situated competitors.

#### Environmental Matters

By nature of our oil and gas operations, we are subject to extensive federal, state and local environmental laws and regulations controlling the generation, use, storage and discharge of materials into the environment or otherwise relating to the protection of the environment. Numerous governmental departments issue rules and regulations to implement and enforce such laws, which are often difficult and costly to comply with and which carry substantial penalties for failure to comply. These laws and regulations may require the acquisition of a permit before drilling or production commences; restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities; limit or prohibit construction or drilling activities on certain lands lying within protected areas; restrict the rate of oil and gas production; require remedial actions to prevent pollution from former operations; and impose substantial liabilities for pollution resulting from our operations. In addition, these laws and regulations may impose substantial liabilities and penalties for failure to comply with them or for any contamination resulting from our operations. We believe we are in compliance, in all material respects, with applicable environmental requirements. We do not believe costs relating to these laws and regulations have had a material adverse effect on our operations or financial condition in the past. Public interest in the protection of the environment has increased dramatically in recent years. The trend of applying more expansive and stricter environmental legislation and regulations to the natural gas and oil industry could continue, resulting in increased costs of doing business and consequently affecting our profitability. To the extent laws are enacted or other governmental action is taken that restricts drilling or imposes more stringent and costly waste handling, disposal and cleanup requirements, our business and prospects could be adversely affected.

The following are some of the existing laws, rules and regulations to which our business is subject:

The Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), also known as the "Superfund" law, imposes liability, without regard to fault or the legality of the original conduct, on classes of persons that are considered to have contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the disposal site or the site where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances. Under CERCLA, such persons may be subject to joint and several liabilities for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We are able to control directly the operation of only those

wells with respect to which we act as operator. Notwithstanding our lack of direct control over wells operated by others, the failure of an operator other than us to comply with applicable environmental regulations may, in certain circumstances, be attributed to us. We do not believe that we will be required to incur any material capital expenditures to comply with existing environmental requirements.

The federal Clean Air Act (“CAA”), and state air pollution laws and regulations provide a framework for national, state and local efforts to protect air quality. The operations of oil and gas properties utilize equipment that emits air pollutants which may be subject to federal and state air pollution control laws. These laws require utilization of air emissions abatement equipment to achieve prescribed emissions limitations and ambient air quality standards, as well as operating permits for existing equipment and construction permits for new and modified equipment. Permits and related compliance obligations under the CAA, as well as changes to state implementation plans for controlling air emissions in regional non-attainment areas may require oil and natural gas exploration and production operators to incur future capital expenditures in connection with the addition or modification of existing air emission control equipment and strategies. In addition, some oil and natural gas facilities may be included within the categories of hazardous air pollutant sources, which are subject to increasing regulation under the CAA. Failure to comply with these requirements could subject a regulated entity to monetary penalties, injunctions, conditions or restrictions on operations and enforcement actions. Oil and natural gas exploration and production facilities may be required to incur certain capital expenditures in the future for air pollution control equipment in connection with obtaining and maintaining operating permits and approvals for air emissions. We believe that we are in compliance in all material respects with the requirements of applicable federal and state air pollution control laws.

Recent scientific studies have suggested that emissions of certain gases, commonly referred to as greenhouse gases (“GHGs”) and including carbon dioxide and methane, may be contributing to warming of the Earth’s atmosphere. In response to such studies, many nations have agreed to limit emissions of GHGs pursuant to the United Nations Framework Convention on Climate Change and the “Kyoto Protocol.” Although the United States is not participating in the Kyoto Protocol, the U.S. Supreme Court has ruled in *Massachusetts, et al. v. EPA*, that the Environmental Protection Agency (“EPA”) abused its discretion under the Clean Air Act by refusing to regulate carbon dioxide emissions from mobile sources. As a result of the Supreme Court decision and the change in presidential administrations, on December 7, 2009, the EPA issued a finding that serves as the foundation under the CAA to issue other rules that would result in federal greenhouse gas regulations and emissions limits under the CAA, even without Congressional action. As part of this array of new regulations, on September 22, 2009, the EPA also issued a GHG monitoring and reporting rule that requires certain parties, including participants in the oil and natural gas industry, to monitor and report their GHG emissions, including methane and carbon dioxide, to the EPA. The EPA has issued a notice of finding and determination that emissions of carbon dioxide, methane and other GHGs present an endangerment to human health and the environment, which allows EPA to begin regulating emissions of GHGs under existing provisions of the federal CAA. The EPA has begun to implement GHG-related reporting and permitting rules. Similarly the U.S. Congress has considered and may in the future consider “cap and trade” legislation that would establish an economy-wide cap on emissions of GHGs. The emissions will be published on a register to be made available on the Internet. These regulations may apply to our operations. The EPA has issued two other rules that would regulate GHGs, one of which regulates GHGs from stationary sources, and one which requires sources in the oil and natural gas exploration and production industry and the pipeline industry to report GHG emissions. The EPA's finding, the GHG reporting rules, and the rules to regulate the emissions of GHGs may affect the outcome of other climate change lawsuits pending in U. S. federal courts in a manner unfavorable to our industry. In addition to the EPA’s actions to regulate GHGs, more than one-third of the states have begun taking action on their own to control and/or reduce emissions of GHGs. Any of the climate change regulatory and legislative initiatives described above in areas in which we conduct business could result in increased compliance costs or additional operating restrictions which could have a material adverse effect on our business, financial condition, and results of operations.

The Resource Conservation and Recovery Act (“RCRA”) and analogous state laws govern the handling and disposal of hazardous and solid wastes. Wastes that are classified as hazardous under RCRA are subject to stringent handling, recordkeeping, disposal and reporting requirements. RCRA specifically excludes from the definition of hazardous waste “drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas or geothermal energy.” However, these wastes may be regulated by the EPA or state agencies as solid waste. Moreover, many ordinary industrial wastes, such as paint wastes, waste solvents, laboratory wastes



and waste compressor oils, are regulated as hazardous wastes. Although the costs of managing hazardous waste may be significant, we do not expect to experience more burdensome costs than similarly situated companies.

The Federal Water Pollution Control Act (“Clean Water Act”) and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including produced waters and other oil and gas wastes, into waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or the applicable state agency. Although the costs to comply with such mandates under state or federal law may be significant, the entire industry will experience similar costs, and we do not believe that these costs will have a material adverse impact on our financial condition and operations.

The Safe Drinking Water Act (“SDWA”) and the Underground Injection Control (“UIC”) program promulgated under the SDWA and state and local laws regulate the drilling and operation of salt water disposal (“SWD”) wells. Wastewaters produced from oil and gas operations are disposed via underground injection wells. Underground injection is the subsurface placement of fluid through a well, such as the reinjection of brine produced and separated from oil and gas production. The EPA directly administers the UIC program in some states and in others it is delegated to the state for administering. Permits must be obtained before drilling SWD wells and casing integrity monitoring must be conducted periodically to ensure the casing is not leaking saltwater into groundwater. Contamination of groundwater by oil and natural gas drilling, production, and related operations may result in fines, penalties, and remediation costs, amount other sanctions and liabilities under the SDWA and state laws. In addition, third party claims may be filed by landowners and other parties claiming damages for alternative water supplies, property damages, and bodily injury. We currently own interests in various underground injection wells operated by others and failure to abide by their permits could subject those operators to civil and/or criminal enforcement. We believe that they are in compliance in all material respects with the requirements of applicable state underground injection control programs and their permits.

Many of our operations depend on the use of hydraulic fracturing to enhance production from oil and gas wells. This technology involves the injection of fluids—usually consisting mostly of water but typically including small amounts of chemical additives—as well as sand into a well under high pressure in order to create fractures in the rock that allow oil or gas to flow more freely to the wellbore. Many newer wells would not be economical without the use of hydraulic fracturing to stimulate production from the well. We engage third parties to occasionally provide hydraulic fracturing or other well stimulation services to us in connection with many of the wells we operate. Certain states have adopted and are considering laws that would require the disclosure of the chemical constituents in hydraulic fracturing fluids. In addition, in 2010, the EPA announced that it would be conducting a study on the environmental effects of hydraulic fracturing. Additional disclosure requirements could result in delays in operations at existing and new well sites as well as increased costs to make our wells productive which could make it more difficult to perform hydraulic fracturing.

We believe that we are in substantial compliance with all existing environmental laws and regulations applicable to our current operations and that our continued compliance with existing requirements will not have a material adverse impact on our financial condition and results of operations, however we cannot assure you that the passage or application of more stringent laws or regulations in the future will not have a negative impact on our financial position or results of operation. We did not incur any material capital expenditures for remediation or pollution control activities for the year ended March 31, 2013. Additionally, as of the date of this report, we are not aware of any environmental issues or claims that will require material capital expenditures during fiscal 2014.

Various state and federal statutes prohibit certain actions that adversely affect endangered or threatened species and their habitat, migratory birds, wetlands, and natural resources. These statutes include the Endangered Species Act and the Migratory Bird Treaty Act, as well as, the CWA and CERCLA. The United States Fish and Wildlife Service may designate critical habitat and suitable habitat areas that it believes are necessary for survival of threatened or endangered species. A critical habitat or suitable habitat designation could result in further material restrictions to federal land use and private land use and could delay or prohibit land access or development. Where takings of or harm to species or damages to wetlands, habitat, or natural resources occur or may occur, government entities or at

times private parties may act to prevent oil and gas exploration activities or seek damages for harm to species, habitat, or natural resources resulting from drilling or construction or releases of oil, wastes, hazardous substances or other regulated materials, and may seek natural resources damages and in some cases, criminal penalties.

## Title to Properties

As is customary in the oil and gas industry, only a preliminary title examination is conducted at the time properties believed to be suitable for drilling operations are acquired by us. Prior to the commencement of drilling operations, a thorough title examination of the drill site tract is conducted and curative work is performed with respect to significant defects, if any, before proceeding with operations. A thorough title examination has been performed with respect to substantially all leasehold producing properties currently owned by us. We believe the title to our leasehold properties is good and defensible in accordance with standards generally acceptable in the oil and gas industry subject to such exceptions that, in the opinion of counsel employed in the various areas in which we have conducted exploration activities, are not so material as to detract substantially from the use of such properties.

The leasehold properties we own are subject to royalty, overriding royalty and other outstanding interests customary in the industry. The properties may be subject to burdens such as liens incident to operating agreements and current taxes, development obligations under oil and gas leases and other encumbrances, easements and restrictions. We do not believe any of these burdens will materially interfere with the use of these properties.

Substantially all of our properties are currently mortgaged under a deed of trust to secure funding through a revolving line of credit.

## Insurance

Our operations are subject to all the risks inherent in the exploration for and development and production of oil and gas including blowouts, fires and other casualties. We maintain insurance coverage customary for operations of a similar nature, but losses could arise from uninsured risks or in amounts in excess of existing insurance coverage.

## Executive Officers

The following table sets forth certain information concerning the executive officers of the Company as of March 31, 2013.

Name	Age	Position
Nicholas C. Taylor	75	Chairman and Chief Executive Officer
Tamala L. McComic	44	President, Chief Financial Officer, Treasurer, and Assistant Secretary
Donna Gail Yanko	68	Vice President and Secretary

Set forth below is a description of the principal occupations during at least the past five years of each executive officer of the Company.

Nicholas C. Taylor was elected Chairman of the Board and Chief Executive Officer of the Company in September 2011 and continues to serve in such capacity on a part time basis, as required. He served as Chief Executive Officer, President and Director of the Company from 1983 to 2011. From July 1993 to the present, Mr. Taylor has been involved in the independent practice of law and other business activities. In November 2005 he was appointed by the Speaker of the House to the Texas Ethics Commission and served until February 2010.

Tamala L. McComic, a Certified Public Accountant, became Controller for the Company in July 2001 and was elected President and Chief Financial Officer in September 2011. She served the Company as Executive Vice President and

Chief Financial Officer from 2009 to 2011 and Vice President and Chief Financial Officer from 2003 to 2009. Prior thereto, Ms. McComic was appointed Treasurer and Assistant Secretary of the Company.

Donna Gail Yanko was appointed to the position of Vice President of the Company in 1990. She has also served as Corporate Secretary since 1992 and from 1986 to 1992 was Assistant Secretary. From 1986 to the present, on a part-time basis, she has assisted the Chairman of the Board of the Company in his personal business activities. Ms. Yanko also served as a director of the Company from 1990 to 2008.

## Employees

As of March 31, 2013, we had three full-time and three part-time employees. We believe that relations with these employees are generally satisfactory. From time to time, we utilize the services of independent geological, land and engineering consultants on a limited basis and expect to continue to do so in the future. We also utilize the services of independent contractors to perform well drilling and production operations, including pumping, maintenance, inspection and testing.

## Office Facilities

We maintain our principal offices at 214 W. Texas Avenue, Suite 1101, Midland, Texas pursuant to a month to month lease. On April 1, 2013, we agreed to a three year lease for our 1,573 square feet of office space which will expire on April 1, 2016.

## Access to Company Reports

Mexco Energy Corporation files annual, quarterly and current reports, proxy statements and other information with the Security Exchange Commission ("SEC"). Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet website ([www.sec.gov](http://www.sec.gov)) that contains annual, quarterly and current reports, proxy statements and other information that issuers, including Mexco, file electronically with the SEC.

Mexco also employs the Public Register's Annual Report Service which can provide you a copy of our annual report at [www.prars.com](http://www.prars.com), free of charge, as soon as practicable after providing such report to the SEC.

We also maintain an internet website at [www.mexcoenergy.com](http://www.mexcoenergy.com). In the Investor Relations section, our website contains our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other reports and amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC. Information on our website is not incorporated by reference into this Form 10-K and should not be considered part of this report or any other filing that we make with the SEC. Additionally, our Code of Business Conduct and Ethics and the charters of our Audit Committee, Compensation Committee and Nominating Committee are posted on our website. Any of these corporate documents as well as any of the SEC filed reports are available in print free of charge to any stockholder who requests them. Requests should be directed to our corporate Assistant Secretary by mail to P.O. Box 10502, Midland, Texas 79702 or by email to [mexco@sbcglobal.net](mailto:mexco@sbcglobal.net).

## ITEM 1A. RISK FACTORS

There are many factors that affect our business and results of operations, some of which are beyond our control. The following is a description of some of the important factors that could have a material adverse effect on our business, financial position, liquidity and results of operations. Some of the following risks relate principally to the industry in which we operate and to our business. Other risks relate principally to the securities markets and ownership of our common stock.

### RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Volatility of oil and gas prices significantly affects our results and profitability.

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 and pricing of oil and gas; the ability of the Organization of Petroleum Exporting Countries (“OPEC”) to set and maintain oil price and production controls; nature and extent of governmental regulation and taxation, including environmental regulations; level of domestic and international exploration, drilling and production activity; the cost of exploring for, producing and delivering oil and gas; availability, proximity and capacity of oil and gas pipelines and other transportation facilities; weather conditions; the price and availability of alternative fuels; technological advances affecting energy consumption; and, overall p