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10-Q
10-Q 1 lucas10q093012.htm LUCAS ENERGY, INC. FORM 10Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-32508

LUCAS ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada	**20-2660243**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3555 Timmons Lane, Suite 1550, Houston, Texas 77027
(Address of principal executive offices) (Zip Code)

(713) 528-1881
(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 (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 90 days. Yes x No o

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 (§232.405 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 x No o

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 the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o 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 o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of each class	**Number of Shares**
Common Stock, par value $0.001 per share	26,696,680 (as of November 5, 2012)

LUCAS ENERGY, INC.

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

LUCAS ENERGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2012	March 31, 2012
ASSETS		
Current Assets		
Cash	$ 326,484	$ 683,979
Accounts Receivable	1,678,013	1,416,819
Inventories	66,766	63,868
Other Current Assets	362,426	199,677
Current Portion of Note Receivable	-	60,157
Total	2,433,689	2,424,500
Property and Equipment		
Oil and Gas Properties (Full Cost Method)	70,394,934	66,240,375
Other Property and Equipment	673,888	646,611
Total Property and Equipment	71,068,822	66,886,986
Accumulated Depletion, Depreciation and Amortization	(7,685,317)	(5,716,989)
Total Property and Equipment, Net	63,383,505	61,169,997
Other Assets	1,290	426,570
Total Assets	$ 65,818,484	$ 64,021,067
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 5,272,890	$ 8,605,490
Common Stock Payable	71,840	84,431
Accrued Expenses	662,333	1,062,763
Advances From Working Interest Owners	1,654,653	1,349,066
Asset Retirement Obligation, current	90,000	90,000
Interests Payable	1,294,334	623,333
Notes Payable	22,000,000	22,000,000
Current Portion of Long-Term Debt	379,623	76,894
Total	31,425,673	33,891,977
Asset Retirement Obligation	1,096,152	985,152
Long-Term Debt	6,564	25,489
Commitments and Contingencies (see Note 8)		
Stockholders' Equity		
Preferred Stock Series A, 2,000 Shares Authorized of $0.001 Par, 2,000 Shares Issued and Outstanding	3,095,600	3,095,600
Preferred Stock Series B, 3,000 Shares Authorized of $0.001 Par, 2,824 Shares Issued and Outstanding at March 31, 2012	-	5,166,754
Common Stock, 100,000,000 Shares Authorized of $0.001 Par, 26,718,645 Shares Issued and 26,681,745 Outstanding Shares at September 30, 2012 and 19,581,657 Issued and 19,544,757 Outstanding Shares at March 31, 2012	26,718	19,582
Additional Paid in Capital	48,551,100	35,791,345
Accumulated Deficit	(18,334,164)	(14,905,673)
Common Stock Held in Treasury, 36,900 Shares, at Cost	(49,159)	(49,159)

Total Stockholders' Equity	33,290,095	29,118,449
Total Liabilities and Stockholders' Equity	$ 65,818,484	$ 64,021,067

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

LUCAS ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Net Operating Revenues				
Crude Oil	$ 2,702,465	$ 927,924	$ 4,415,416	$ 2,132,344
Natural Gas	30,344	39,518	35,198	67,545
Total	2,732,809	967,442	4,450,614	2,199,889
Operating Expenses				
Lease Operating Expenses	1,153,151	1,033,286	2,082,906	1,634,769
Severance and Property Taxes	134,201	59,749	227,380	119,524
Depreciation, Depletion, Amortization				
Amortization, and Accretion	1,176,537	290,933	1,998,328	698,866
General and Administrative	1,446,630	1,386,663	2,894,849	2,431,377
Total	3,910,519	2,770,631	7,203,463	4,884,536
Operating Loss	(1,177,710)	(1,803,189)	(2,752,849)	(2,684,647)
Other Income (Expense), Net	6,751	(292,555)	15,887	(291,709)
Interest Expense	(350,360)	(2,355)	(691,529)	(5,842)
Loss Before Income Taxes	(1,521,319)	(2,098,099)	(3,428,491)	(2,982,198)
Income Tax Provision	-	-	-	-
Net Loss	$ (1,521,319)	$ (2,098,099)	$ (3,428,491)	$ (2,982,198)
Net Loss Per Share				
Basic and Diluted	$ (0.06)	$ (0.11)	$ (0.15)	$ (0.17)
Average Number of Common Shares				
Basic and Diluted	24,763,982	18,714,267	23,456,220	17,780,193

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

LUCAS ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended September 30,	
	2012	**2011**
Cash Flows from Operating Activities		
Reconciliation of Net Loss to		
Net Cash Used in Operating Activities:		
Net Loss	$ (3,428,491)	$ (2,982,198)
Items Not Requiring Cash		
Depreciation, Depletion, Amortization and Accretion	1,998,328	698,866
Share-Based Compensation	200,108	217,551
Non-Operating Expense Relating to Exercise of Warrants	-	293,277
Changes in Components of Working Capital and Other Assets		
Accounts Receivable	(261,194)	121,495
Inventories	(2,898)	(66,268)
Prepaid Expenses and Other Current Assets	(162,749)	37,657
Accounts Payable, Accrued Expenses and Interests Payable	(2,913,832)	308,459
Advances from Working Interest Owners	305,587	(357,399)
Other Assets	-	(40,500)
Changes in Components of Working Capital		
Associated with Investing Activities	3,067,562	(314,274)
Net Cash Used in Operating Activities	(1,197,579)	(2,083,334)
Investing Cash Flows		
Additions of Oil and Gas Properties	(3,152,747)	(5,023,330)
Additions of Other Property and Equipment	(27,277)	(41,661)
Proceeds from Sale of Oil and Gas Properties	-	100,096
Payments Received on Notes Receivable	14,625	-
Changes in Components of Working Capital Associated with		
Investing Activities	(3,067,562)	314,274
Net Cash Used In Investing Activities	(6,232,961)	(4,650,621)
Financing Cash Flows		
Net Proceeds from Exercises of Warrants	412,501	5,760,373
Net Proceeds from Sales of Common Stock	6,826,740	-
Repayment of Borrowings	(166,196)	(17,477)
Net Cash Provided by Financing Activities	7,073,045	5,742,896
Decrease in Cash and Cash Equivalents	(357,495)	(991,059)
Cash and Cash Equivalents at Beginning of the Period	683,979	2,471,108
Cash and Cash Equivalents at End of the Period	$ 326,484	$ 1,480,049

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

LUCAS ENERGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - GENERAL

History. Incorporated in Nevada in December 2003 under the name Panorama Investments Corp., the Company changed its name to Lucas Energy, Inc. effective June 9, 2006.

Basis of Presentation. The accompanying unaudited interim condensed consolidated financial statements of Lucas Energy, Inc., together with its subsidiaries (collectively, "Lucas" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in Lucas's annual report filed with the SEC on Form 10-K for the year ended March 31, 2012. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the condensed consolidated financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year 2012 as reported in Form 10-K have been omitted.

Fiscal Year. The Company's fiscal year ends on the last day of March of the calendar year. The Company refers to the twelve-month periods ended March 31, 2013 and 2012 as its 2013 and 2012 fiscal year, respectively.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Lucas's condensed consolidated financial statements are based on a number of significant estimates, including oil and gas reserve quantities which are the basis for the calculation of depreciation, depletion and impairment of oil and gas properties, and timing and costs associated with its retirement obligations, as well as those related to the fair value of stock options, stock warrants and stock issued for services.

Reclassification. Certain reclassifications have been made to prior period financial statements to conform with the current presentation.

Cash and Cash Equivalents. Cash and cash equivalents include cash in banks and financial instruments which mature within three months of the date of purchase.

Income Taxes. Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and accrued tax liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Lucas has evaluated and concluded that there are no significant uncertain tax positions requiring recognition in the Company’s financial statements as of September 30, 2012. The Company’s policy is to classify assessments, if any, for tax related interest and penalties as interest expense.

Concentration of Credit Risk. Financial instruments, that potentially subject Lucas to concentration of credit risk, consist of accounts receivable. Accounts receivable are recorded at the invoiced amount and generally do not bear interest. Any allowance for doubtful accounts is based on management's estimate of the amount of probable losses due to the inability to collect from customers. As of September 30, 2012, no allowance for doubtful accounts was recorded.

Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, for the two-year period of January 1, 2011 through December 31, 2012, cash balances in noninterest-bearing transaction accounts at all FDIC-insured depository institutions are provided temporary unlimited deposit insurance coverage. At September 30, 2012, cash balances in interest-bearing accounts totaled $4,800.

Fair Value of Financial Instruments. As of September 30, 2012 and March 31, 2012, the fair value of Lucas's cash, accounts receivable, note receivable, accounts payable and notes payable approximate their carrying values because of the short-term maturity of these instruments.

Earnings per Share of Common Stock. Basic and diluted net income per share calculations are calculated on the basis of the weighted average number of shares of the Company's common stock ("Common Shares") outstanding during the period. Purchases of treasury stock reduce the outstanding shares commencing on the date that the stock is purchased. Common stock equivalents, for example, stock option, warrant and convertible preferred stock, are excluded from the calculation when a loss is incurred as their effect would be anti-dilutive.

At September 30, 2012, stock options to purchase 456,000 Common Shares at an average exercise price of $2.88 per share and warrants to purchase 3,893,636 Common Shares at an average exercise price of $2.67 per share were outstanding.

Subsequent Events. Lucas evaluated all transactions from September 30, 2012 through the financial statement issuance date for subsequent event disclosure.

Recently Issued Accounting Standards. There were various accounting standards and interpretations issued recently, none of which are expected to have a material impact on our consolidated financial position, operations or cash flows.

NOTE 2 – PROPERTY AND EQUIPMENT

Oil and Gas Properties

Lucas uses the full cost method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells used to find proved reserves, and to drill and equip development wells including directly related overhead costs and related asset retirement costs are capitalized. Properties not subject to amortization consist of acquisition, exploration and development costs, which are evaluated on a property-by-property basis. Amortization of these unproved property costs begins when the properties become proved or their values become impaired and the corresponding costs are added to the capitalized costs subject to amortization. Costs of oil and gas properties are amortized using the units of production method. Amortization expense calculated per equivalent physical unit of production amounted to $40.93 per barrel of oil equivalent (“BOE”) for the three months ended September 30, 2012, and was $30.50 per BOE for the three months ended September 30, 2011. Amortization expense calculated per equivalent physical unit of production amounted to $40.93 per BOE for the six months ended September 30, 2012, and was $30.47 per BOE for the six months ended September 30, 2011. Sales of oil and natural gas properties are accounted for as adjustments to the net full cost pool and generally, no gain or loss is recognized.

In applying the full cost method, Lucas performs an impairment test (ceiling test) at each reporting date, whereby the carrying value of property and equipment is compared to the “estimated present value,” of its proved reserves discounted at a 10-percent interest rate of future net revenues, based on current economic and operating conditions at the end of the period, plus the cost of properties not being amortized, plus the lower of cost or fair market value of unproved properties included in costs being amortized, less the income tax effects related to book and tax basis differences of the properties. If capitalized costs exceed this limit, the excess is charged as an impairment expense. As of September 30, 2012, no impairment of oil and gas properties was indicated.

All of Lucas's oil and gas properties are located in the United States. Below are the components of Lucas's oil and gas properties recorded at cost as of September 30, 2012:

Proved leasehold costs	$ 36,832,565
Costs of wells and development	32,554,203
Capitalized asset retirement costs	1,008,166
Total oil and gas properties	70,394,934
Accumulated depreciation and depletion	(7,559,716)
Net capitalized costs	$ 62,835,218

The following table sets forth the changes in the total cost of oil and gas properties during the six months ended September 30, 2012:

Balance at beginning of period	$ 66,240,375
Acquisition of oil and gas interests using	
Cash	50,000
Assumption of note	450,000
Receivable extinguished	470,812
Tangible and intangible drilling costs	
and title related expenses	3,102,747
Other non-cash transactions	81,000
Balance at end of period	$ 70,394,934

Acquisitions using cash and tangible and intangible drilling costs and title related expenses for the six months ended September 30, 2012 totaled to $3,152,747.

Other Property and Equipment

In November 2011, Lucas entered into a purchase agreement for a building in Gonzales County, Texas, for $450,000 to be used as office space. Pursuant to the agreement, the Company agreed to pay $325,000 in the form of a promissory note to be repaid in monthly installments. The final payment was made on May 1, 2012.

NOTE 3 – ASSET RETIREMENT OBLIGATIONS

The following table presents the reconciliation of the beginning and ending aggregate carrying amounts of long-term legal obligations associated with the retirement of oil and gas property and equipment for the six-month period ended September 30, 2012. Lucas did not have any short-term asset retirement obligations as of September 30, 2012.

Carrying amount at beginning of period	$ 1,075,152
Accretion	30,000
Additions for purchase of oil and gas property	81,000
Carrying amount at end of period	$ 1,186,152

NOTE 4 – NOTE PAYABLE

In November 2011, Lucas closed a purchase and sale transaction with Nordic Oil USA I, LLLP ("Nordic 1"), with an effective date of July 1, 2011, to purchase all of Nordic 1's interests in certain oil, gas and mineral leases, rights and assets located in Gonzales, Karnes and Wilson Counties, Texas, which represented all of Nordic 1's interests in the existing two capital programs operated by Lucas. Pursuant to the transaction, Lucas agreed to pay $22.0 million to Nordic 1 in the form of a non-recourse senior secured promissory note. As such, Nordic 1's only recourse is against the properties acquired in the transaction, and the note is not secured by any of the Company's other assets. The note is due on or before November 17, 2012 and bears interest at 6% per annum. The Company is in discussion with Nordic 1 regarding making various modifications to the note, which include, among other items, an extension of the term and maturity date of the note. In the event that the note is not modified, the Company intends to return to Nordic 1 the oil and gas properties underlying the note pursuant to the note agreement. The quantities of proved developed and proved undeveloped crude oil reserves of the properties were estimated to be approximately 35 thousand barrels and 1.2 million barrels, respectively. As of September 30, 2012, Lucas has accrued approximately $1,294,000 of interest payable for this note.

NOTE 5 – STOCKHOLDERS' EQUITY

Preferred Stock

As of September 30, 2012, Lucas had 2,000 shares of Series A Convertible Preferred Stock issued and outstanding and no shares of Series B Convertible Preferred Stock issued and outstanding. The shares of preferred stock were issued for property acquisitions and were recorded at the fair value of the shares on the date of issuance. Each share of both the Series A and Series B Convertible Preferred Stock is convertible into 1,000 shares of the Company's common stock. Both Series have no liquidation preference and no maturity date. The Series B Preferred Stock has dividend rights when and if cash dividends are declared by the Company on an "if converted" basis. Additionally, the conversion rate of the Series A and B Convertible Preferred Stock adjusts automatically in connection with and in proportion to any dividends payable by the Company in common stock.

Common Stock

The following summarizes Lucas's common stock activity during the six-month period ended September 30, 2012:

		Common Shares			
		Issued			
	Amount	Per Share	Shares	Treasury	Outstanding
Balance at March 31, 2012			19,581,657	(36,900)	19,544,757
Unit Offerings					
April 2012	$ 5,518,627	$ 1.87	2,950,000 (1)	-	2,950,000
September 2012	1,308,113	1.64	800,000 (2)	-	800,000
Preferred Stock Series B Conversion	-	-	2,824,000 (3)	-	2,824,000
Warrants Exercised	412,501	1.00	412,501	-	412,501
Share-Based Compensation	259,178	1.72	150,487	-	150,487
Balance at September 30, 2012			26,718,645	(36,900)	26,681,745

(1) In April 2012, the Company sold an aggregate of 2,950,000 units at $2 each, with each unit consisting of one share of Company common stock and 0.35 of a warrant to purchase one share of the Company's common stock at an exercise price of $2.30 per share in a registered direct offering. A total of 2,950,000 shares and 1,032,500 warrants were sold in connection with the offering. The Company received an aggregate of $5,900,000 (or $2 per unit) in gross funding and approximately $5,500,000 (or $1.87 per unit) in net proceeds after paying commissions and other expenses associated with the offering. The Company used the net proceeds to pay down expenses related to drilling, lease operating and workover activities; and for general corporate purposes, including general and administrative expenses.

(2) In September 2012, the Company sold an aggregate of 800,000 units at $1.65 each, with each unit consisting of one share of Company common stock and 0.25 of a warrant to purchase one share of the Company's common stock at an exercise price of $2.00 per share in a registered direct offering. A total of 800,000 shares and 200,000 warrants were sold in connection with the offering. The Company received an aggregate of $1,320,000 (or $1.65 per unit) in gross funding and approximately $1,308,000 (or $1.64 per unit) in net proceeds after paying related expenses associated with the offering. The Company did not pay any commission in connection with the offering. The Company used the net proceeds to pay down expenses related to drilling, lease operating and workover activities; and for general corporate purposes, including general and administrative expenses.

(3) In connection with the December 2011 purchase of certain oil, gas and mineral leases, rights and assets located in Leon, Madison and Wilson Counties, Texas, Lucas issued 2,824 shares of the Company's Series B Convertible Preferred Stock. Each of the shares was convertible into 1,000 shares of the Company's common stock. All of these shares of Series B Convertible Preferred Stock were converted into shares of the Company's common stock during the quarter ended September 30, 2012.

See Note 7 – Share-Based Compensation for information on common stock activity related to Share-Based Compensation, including shares granted to the board of directors, officers, employees and consultants.

Warrants

During the six months ended September 30, 2012, warrants to purchase 412,500 shares of the Company's common stock with an exercise price of $1 per share were exercised. These warrants were issued in connection with the sale of units in a private equity placement in September 2009. Of all the warrants issued in September 2009, 5,000 warrants were not exercised and expired during the three months ended September 30, 2012. As discussed above, the Company issued 1,032,500 warrants with an exercise price of $2.30 in connection with the April 2012 unit offering and 200,000 warrants with an exercise price of $2.00 in connection with the September 2012 unit offering.

The following is a summary of the Company's outstanding warrants at September 30, 2012:

Warrants Outstanding	Exercise Price ($)	Expiration Date	Intrinsic Value at September 30, 2012
150,630 (1)	2.98	July 3, 2014	$ -
2,510,506 (2)	2.86	July 3, 2016	-
1,032,500 (3)	2.30	October 19, 2017	41,300
200,000 (4)	2.00	September 12, 2013	68,000
3,893,636			$ 109,300

(1) Placement agent warrants issued in connection with the sale of units in the Company's unit offering in December 2010. The warrants were not exercisable until July 4, 2011 and will remain exercisable thereafter until July 3, 2014.
(2) Series B Warrants issued in connection with the sale of units in the Company's unit offering in December 2010. The Series B Warrants became exercisable on July 4, 2011 and will remain exercisable thereafter until July 3, 2016.
(3) Warrants issued in connection with the sale of units in the Company's unit offering in April 2012. The warrants will not be exercisable until October 19, 2012, and will remain exercisable thereafter until October 19, 2017.
(4) Warrants issued in connection with the sale of units in the Company's unit offering in September 2012.

In July 2011, in an effort to secure the funding for the capital expenditure program for the current fiscal year and to avoid the unpredictable nature of the financial market, the Company incentivized the institutional investors who purchased securities in the Company's December 2010 offering to exercise the Series C Warrants they purchased as part of the offering by entering into an amendment to the original Series C Warrant Agreement on July 18, 2011 (the Amendment Agreement). Net proceeds to the Company from exercises of all of the 2,510,506 Series C Warrants were approximately $5.8 million after deducting commissions paid to the placement agent. The Company used the net proceeds for general corporate purposes, including the funding of capital expenditures. Based on the Black Scholes option pricing model, the change in the exercise price resulted in an increase of $293,277 in the aggregate value of the Series C Warrants. Pursuant to the Stock Compensation Topic of the Financial Accounting Standards Board Accounting Standards Codification (ASC Topic 718), the Company recorded the increase as a non-operating expense in Other Income (Expense) in the Condensed Consolidated Statements of Operations and recorded the same amount in Additional Paid in Capital in the Condensed Consolidated Balance Sheets.

NOTE 6 – INCOME TAXES

The Company has estimated that its effective tax rate for U.S. purposes will be zero for the 2013 fiscal year and consequently, recorded no provision or benefit for income taxes for the six months ended September 30, 2012.

NOTE 7 – SHARE-BASED COMPENSATION

In accordance with the provisions of ASC Topic 718, Lucas measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

Common Stock

Lucas awarded 33,235 and 57,006 shares of its common stock with an aggregate grant date fair value of $51,501 and $98,390 during the three-month and six-month periods ended September 30, 2012, respectively, which were valued based on the trading value of Lucas's common stock on the dates of grant. The shares were awarded according to the employment agreements with certain officers and other managerial personnel.

In April 2011, Lucas issued 125,000 shares of its common stock, which were previously accrued for and valued at $498,750 as of March 31, 2011, to a business consultant for his services provided during the 2011 fiscal year.

Stock Options

None of the Company's outstanding options expired, were exercised or forfeited during the six months ended September 30, 2012.

The following table sets forth stock option activity for the six-month periods ended September 30, 2012 and 2011:

	Six Months Ended September 30, 2012		Six Months Ended September 30, 2011	
	Number of Stock Options	Weighted Average Grant Price	Number of Stock Options	Weighted Average Grant Price
Outstanding at March 31	456,000	$ 2.88	256,000	$ 1.96
Granted	-	-	200,000	4.05
Outstanding at September 30	456,000	$ 2.88	456,000	$ 2.88
Exercisable at September 30	96,000	$ 2.00	96,000	$ 2.00

Lucas did not grant any stock options during the six months ended September 30, 2012. In April 2011, Lucas granted stock options to purchase 200,000 shares of common stock to an officer valued at approximately $604,000. The grant date fair values of the stock options are amortized and recognized as compensation expenses over the service period.

Compensation expense related to stock options granted during the three-month and six-month periods ended September 30, 2012 was $50,860 and $101,718, respectively. The options vest 25% on each of the first four anniversary dates and have a 5 year exercise period. The exercise prices for the options equal the closing price of the Company stock on the grant dates. All issuances were valued at fair value on the date of grant based on the market value of Lucas' common stock using the Black Scholes option pricing model with the following weighted average assumptions used for grants; dividend yield of 0.00%; expected volatility of 116%; risk-free interest rate of 1.31% and expected term of 3.1 years.

Options outstanding and exercisable at September 30, 2012 had an intrinsic value of $48,640. Options outstanding and exercisable at September 30, 2011 had no intrinsic value. The intrinsic value is based upon the difference between the market price of Lucas's common stock on the date of exercise and the grant price of the stock options.

The following tabulation summarizes the remaining terms of the options outstanding:

Exercise Price	Remaining Life (Yrs)	Options Outstanding	Options Exercisable
$2.00	2.95	96,000	96,000
$1.94	3.35	160,000	40,000
$4.05	3.45	200,000	50,000
	Total	456,000	186,000

As of September 30, 2012, total unrecognized stock-based compensation expense related to all non-vested stock options was $497,671, which is being recognized over a weighted average period of approximately 2.4 years.

On December 16, 2011, the shareholders of the Company approved the Company's 2012 Stock Incentive Plan (the 2012 Plan). The 2012 Plan is intended to secure for the Company the benefits arising from ownership of the Company's common stock by the employees, officers, directors and consultants of the Company, all of whom are and will be responsible for the Company's future growth. The 2012 Plan provides an opportunity for any employee, officer, director or consultant of the Company to receive incentive stock options (to eligible employees only), nonqualified stock options, restricted stock, stock awards, and shares in performance of services. There were 1,353,066 shares and 1,288,131 shares available for issuance under the 2012 Plan as of September 30, 2012, and November 5, 2012, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings. The Company is periodically named in legal actions arising from normal business activities. Lucas evaluates the merits of these actions and, if the Company determines that an unfavorable outcome is probable and can be reasonably estimated, we will establish the necessary reserves. Lucas does not anticipate any material losses as a result of commitments and contingent liabilities. Lucas is not involved in any material legal proceedings.

NOTE 9 – POSTRETIREMENT BENEFITS

Lucas maintains a matched defined contribution savings plan for its employees. During the three-month and six-month periods ended September 30, 2012, Lucas's total costs recognized for the savings plan were $9,560 and $18,141, respectively. During the three-month and six-month periods ended September 30, 2011, Lucas's total costs recognized for the savings plan were approximately $7,400 and $14,700 respectively.

NOTE 10 – SUPPLEMENTAL CASH FLOW INFORMATION

Net cash paid for interest and income taxes was as follows for the six-month periods ended September 30, 2012 and 2011:

	Six Months Ended September 30,	
	2012	2011
Interest	$ (20,529)	$ (6,842)
Income taxes	-	-

Non-cash investing and financing activities for the six-month periods ended September 30, 2012 and 2011 included the following:

	Six Months Ended September 30,	
	2012	2011
Issuance of common stock for the purchase of certain oil and gas properties	-	$ 441,000
Increase in asset retirement obligations	$ 81,000	9,000
Net assumption of note payable in acquisition of oil and gas properties	450,000	-
Extinguishment of note receivable in exchange of certain oil and gas properties	470,812	-
Conversion of preferred stock to common stock	5,163,930	-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included elsewhere in this report, and should be read in conjunction with management's discussion and analysis contained in Lucas's Annual Report on Form 10-K for the fiscal year ended March 31, 2012 (the "2012 Annual Report") and related discussion of our business and properties contained therein. The terms "Company," "Lucas Energy," "Lucas," "we," "us" and "our" refer to Lucas Energy, Inc. and its subsidiary. See also, "Cautionary Note Regarding Forward-Looking Statements," below.

Overview

Lucas Energy, Inc., a Nevada corporation, is an independent oil and gas company based in Houston, Texas. Lucas Energy, Inc. together with its subsidiary, LEI Alcalde Holdings, LLC explores for, develops, produces and markets primarily crude oil and to a much lesser extent, natural gas, from various known productive geological formations, including the Austin Chalk, Eagle Ford and Buda formations, primarily in Gonzales, Wilson, Karnes and Atascosa Counties south of the City of San Antonio; and the Eaglebine formation in Leon and Madison Counties north of the City of Houston in Texas. Incorporated in Nevada in December 2003 under the name Panorama Investments Corp., the Company changed its name to Lucas Energy, Inc. effective June 9, 2006. Our goal is to acquire, develop, and produce crude oil and natural gas from areas located in, or near, established oil fields.

The Company's strategy is as follows:

- Locate and acquire what we believe to be undervalued, underdeveloped oil and gas properties in known areas which were neglected when oil prices were below $20 per barrel. Re-establish or improve production from existing well bores. Look for underlying potential in the form of new drilling, new laterals from existing wells, and/or deeper undeveloped horizons. The Company does not participate in exploration activities, or rank wildcat drilling activities,

- Develop the properties out of current cash flow, or using project financing, which may include joint interest participation partners (what are commonly known as joint ventures), and

- Seek out additional product financing and joint venture partners to expand the asset base and increase production.

Our website address is http://www.lucasenergy.com. Our fiscal year ends on the last day of March of each year. We refer to the twelve-month periods ended March 31, 2012 and March 31, 2011 as our 2012 fiscal year and 2011 fiscal year, respectively.

At September 30, 2012, the Company had leasehold interests (working interests) in approximately 27,770 gross acres. Total net developed and undeveloped acreage as measured from the surface to the base of the Austin Chalk formation was approximately 21,845 acres. The Company has approximately 6,225 net acres in the Eagle Ford (and lower depths) in the southern part of the Eagle Ford trend near San Antonio, Texas. Further, the Company has approximately 3,745 net acres in the Eaglebine area of the Eagle Ford trend to the north of Houston, Texas.

At the end of September 2012, Lucas was producing approximately 360 BOPD (approximately 220 BOPD net) from 67 active well bores, of which 10 wells accounted for almost 85% of the production. The ratio between the gross and net production varies due to varied working interests and net revenue interests in each well. An affiliate of Marathon Oil Corporation operates two Eagle Ford horizontal wells, in each of which we have a 15% working interest. The wells produced a cumulative of approximately 120,000 barrels of oil through July 31, 2012 and were recently put on artificial lift.

At March 31, 2012, Lucas Energy's total estimated net proved reserves were 8.8 million barrels of oil equivalent (BOE), of which 7.0 million barrels (BBLs) were crude oil reserves, and 10.7 million cubic feet (MMCF) were natural gas reserves (see Supplemental Information to Consolidated Financial Statements of the 2012 Annual Report). Lucas is currently reviewing these reserves. As of September 30, 2012, Lucas employed 19 full-time employees. We also utilized approximately 10 contractors on an "as-needed" basis to carry out various functions of

the Company, including but not limited to field operations, land administration, corporate activity and information technology maintenance.

Industry Segments

Lucas Energy's operations are all crude oil and natural gas exploration and production related.

Operations and Oil and Gas Properties

We operate in known productive areas; that is, we do not drill wildcat wells. Our holdings are found in a broad area of current industry activity in Gonzales, Wilson, Karnes, Atascosa, Leon and Madison Counties in Texas. We concentrate on three vertically adjoining formations in Gonzales, Wilson, Karnes and Atascosa Counties: the Austin Chalk, Eagle Ford and Buda formations, listed in the order of increasing depth measuring from the land surface. The recent development of the Eagle Ford as a high potential producing zone has heightened industry interest and success. Lucas Energy's acreage position is in the oil window of the Eagle Ford trend. Prior to the active development of the Eagle Ford trend in the Gonzales County, Texas area, Lucas investigated the potential of the Eagle Ford formation using modern well logs. Subsequent to this research, Lucas sought to acquire over 15,000 acres in the Gonzales and Wilson County, Texas area. In 2010 the Company sold an 85% working interest in the acreage in Gonzales County, Texas to Hilcorp Resources, LLC (now Marathon Resources EF, LLC); and in 2011 the Company sold a 50% working interest to Marathon Oil Company in Wilson County, Texas. In December 2011, we acquired 3,745 net acres in Leon and Madison Counties and thereby expanded our holdings of the Eagle Ford trend into the Eaglebine area.

Austin Chalk

The Company's original activity started in Gonzales County by acquiring existing shut-in and stripper wells and improving production from those wells. Most of the wells had produced from the Austin Chalk. The Austin Chalk is a dense limestone, varying in thickness along its trend from approximately 200 feet to more than 800 feet. It produces by virtue of localized fractures within the formation.

Eagle Ford

Drilling activities by other operators and the improvement in horizontal drilling, well stimulation, and completion technologies, have brought the Eagle Ford play to prominence as one of the foremost plays in the United States today.

On Lucas' leases, the Eagle Ford is a porous limestone with organic shale matter. The Eagle Ford formation directly underlies the Austin Chalk formation and is believed to be the primary source of oil and gas produced from the Austin Chalk. Reservoir thickness in the area of the Company's leases varies from approximately 60 feet to 80 feet.

Buda

The Buda limestone underlies the Eagle Ford formation separated by a 10 foot to 20 foot inorganic shale barrier. Its thickness varies from approximately 100 feet to more than 150 feet in this area. The Buda produces from natural fractures and matrix porosity and is prospective across this whole area. There are a number of Buda wells with cumulative production of more than 100,000 barrels of oil.

Eaglebine

The Eaglebine is so named because the Eagle Ford formation overlies the Woodbine formation. This is a continuation of the Eagle Ford trend that is productive from south Texas to the east north of Houston, Texas. The Woodbine formation is best known as the prolific reservoir in the famous East Texas Oil Field. There has been increased interest and activity in the Eaglebine formation in the Leon, Houston, and Madison County areas. There is established production from horizontal and vertical wells to the east and south of Lucas' holdings and numerous permits for horizontal wells have been filed for additional exploratory and development drilling.

General

The ultimate goal of the management of Lucas is to maximize shareholder value. Specific targets include: increasing production, increasing new revenues, increasing profitability margins, increasing property values and reserves, and expanding the asset base.

Overview of Properties

During our 2012 fiscal year, the Company continued to acquire Austin Chalk and Eagle Ford assets. These acquisitions were done with minimal cash outlay and at prices which Lucas believes were under the current market. These acquisitions included the following:

- Acquisition of Austin Chalk producing and non-producing properties, along with some Eagle Ford assets, from our Nordic Oil USA I LLLP joint venture partner,

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- Acquisition of Eagle Ford undeveloped properties from an affiliate of Hall Financial Group of Dallas, Texas, and

- Acquisition of Eaglebine producing and non-producing properties north of Houston, Texas from an affiliate of Hall Financial Group.

The Company ended the 2012 fiscal year with approximately 5,900 net acres in the Eagle Ford trend and approximately 3,700 net acres in the Eaglebine trend.

Lucas continues to review additional areas of interest. During the 2011 fiscal year, the Company invested approximately $2 million in a property in New Mexico. After careful review of the property, it was decided that the New Mexico property was not as good an investment as the Austin Chalk and Eagle Ford areas. Therefore, Lucas sold its New Mexico assets for more than it paid for them within less than a year.

The Company evaluated its Eagle Ford assets in the Gonzales, Wilson, Atascosa, and Karnes Counties, Texas areas with respect to potential reserves and benefit to shareholder value with the conclusion that the cash resulting from a sale of these Eagle Ford assets would be more beneficial to the price of the common stock than to have the proved undeveloped reserves of the same properties. The Company does not believe that there exists a development plan that would benefit the shareholders more than having the cash and investing it in the Austin Chalk, and other, asset development.

Operations and New Drilling

During the first six months of the 2013 fiscal year, the Company had very little new activity in either drilling or workovers.

Expense workovers of wells with production of less than 10 BOPD continue to have an impact on lease operating expenses. As newer wells, or newer laterals from existing well bores, are drilled on these leases, the expense of workover costs will diminish in the future. An increase in the drilling program of the older leases could significantly reduce expense workover costs, and as a result, reduce our lifting costs per BBL (barrel).

Our Strengths

We believe our strengths will help us successfully execute our business strategies:

We benefit from the increasing value, attention and activity in the Eagle Ford. Activity levels in the Eagle Ford continue to increase. It was reported by the US Energy Information Administration ("USEIA") on April 23, 2012, that the number of oil and natural gas well starts in the Eagle Ford increased from around 50 in January 2010 to approximately 350 in March 2012. We benefit from the increasing number of wells drilled and the corresponding data available from public and governmental sources. This activity and data have begun to define the geographic extent of the Eagle Ford formation, which we believe will assist us in evaluating future leasehold acquisitions and development operations. In addition, the leading operators in the Eagle Ford have developed drilling and completion technologies that have significantly reduced production risk and decreased per unit drilling and completion costs.

Our size, local knowledge and contacts allow us to pursue a broader range of acquisition opportunities. Our size provides us with the opportunity to acquire smaller acreage blocks that may be less attractive to larger operators in the area. Certain local landowners have expressed their preference to have Lucas operate on their properties rather than other companies. We believe that our acquisition of these smaller blocks will have a meaningful impact on our overall acreage position.

Experienced management team with proven acquisition, operating and financing capabilities. Mr. William A. Sawyer, our Chief Executive Officer, has 35 years of oil and gas experience. His operations experience includes ARCO, Houston Oil & Minerals, Superior Oil and ERCO. Mr. Sawyer is a registered professional engineer and is the founder of Exploitation Engineers, a petroleum consulting firm. He is complemented by Anthony C. Schnur, our recently appointed Chief Financial Officer, who has 15

years of oil and gas industry experience.

RESULTS OF OPERATIONS

The following discussion and analysis of the results of operations for the three-month and six-month periods ended September 30, 2012 and 2011 should be read in conjunction with the condensed consolidated financial statements of Lucas Energy and notes thereto included in this Quarterly Report on Form 10-Q. As used below, the abbreviations "NGL" stands for natural gas liquids, "Bbls" stands for barrels, "Mcf" for thousand cubic feet and "Boe" for barrels of oil equivalent on the basis of six Mcf per barrel.

Three Months Ended September 30, 2012 vs. Three Months Ended September 30, 2011

We reported a net loss for the three months ended September 30, 2012 of $1.5 million, or $0.06 per share. For the same period a year ago, we reported a net loss of $2.1 million, or $0.11 per share. Our net loss decreased by $0.6 million primarily due to an increase in net operating revenues of $1.8 million, partially offset by an increase in operating expenses of $1.1 million.

The following table sets forth the operating results and production data for the three-month periods ended September 30, 2012 and 2011.

	Three Months Ended September 30,		Increase	%
	2012	2011	(Decrease)	Incr(Decr)
Sale Volumes:				
Crude Oil (Bbls)	27,204	10,674	16,530	155%
Natural Gas & NGL (Mcf)	4,326	8,739	(4,413)	-50%
Total (Boe)	27,925	12,131	15,794	130%
Crude Oil (Bbls per day)	299	116	183	158%
Natural Gas & NGL (Mcf per day)	48	95	(47)	-49%
Total (Boe per day)	307	132	175	133%
Average Sale Price:				
Crude Oil ($/Bbl)	$ 99.34	$ 86.93	$ 12.41	14%
Natural Gas & NGL ($/Mcf)	$ 7.01	$ 4.52	$ 2.49	55%
Net Operating Revenues:				
Crude Oil	$ 2,702,465	$ 927,924	$ 1,774,541	191%
Natural Gas & NGL	30,344	39,518	(9,174)	-23%
Total Revenues	$ 2,732,809	$ 967,442	$ 1,765,367	182%

Oil and Gas Revenues

Total crude oil and natural gas revenues for the three months ended September 30, 2012 increased $1.8 million, or 182%, to $2.7 million from $1.0 million for the same period a year ago due primarily to a favorable crude oil volume variance of $1.6 million and a slightly favorable crude oil price variance of less than $0.1 million.

Operating and Other Expenses

	Three Months Ended September 30,		Increase	%
	2012	2011	(Decrease)	Incr(Decr)
Lease Operating Expenses	$ 1,153,151	$ 1,033,286	$ 119,865	12%
Severance and Property Taxes	134,201	59,749	74,452	125%
Depreciation, Depletion, and Amortization	1,176,537	290,933	885,604	304%
General and Administrative ("G&A")	$ 1,348,270	$ 1,273,721	$ 74,549	6%
Share-Based Compensation	98,360	112,942	(14,582)	-13%
Total G&A Expense	$ 1,446,630	$ 1,386,663	$ 59,967	4%
Other Income (Expense), Net	6,751	(292,555)	299,306	
Interest Expense	(350,360)	(2,355)	(348,005)	

Lease Operating Expenses

Lease operating expenses increased $0.1 million for the current quarter as compared to the prior year period principally due to higher lease rental expenses.

Depreciation, Depletion, Amortization and Accretion (DD&A)

DD&A increased $0.9 million primarily due to an increase in production of 15,794 Boe. The DD&A rate per Boe also increased from $30.50 to $40.93.

General and Administrative Expenses

G&A expenses, including share-based compensation, for the current quarter remained basically the same as that of the prior year's quarter, increased $0.1 million, or 4%. The slight increase was primarily due to higher employee-related costs.

Other Income (Expense), Net

Other Income (Expense) for the quarter ended September 30, 2011, primarily consisted of $293,277 representing the increase in the value of the Series C Warrants as a result of the modification of the warrant agreements to incentivize the warrant holders to exercise the warrants. The value was calculated based on the Black Scholes option pricing model.

Interest Expense

During the three months ended September 30, 2012, we incurred interest expense of $350,360 on the Nordic 1 note issued during a property acquisition (described in greater detail below under “Liquidity and Capital Resources”).

Six Months Ended September 30, 2012 vs. Six Months Ended September 30, 2011

We reported a net loss for the six months ended September 30, 2012 of $3.4 million, or $0.15 per share. For the same period a year ago, we reported a net loss of $3.0 million, or $0.17 per share. Our net loss increased by $0.4 million primarily due to an increase in total operating expenses of $2.3 million and interest expense of $0.7 million, partially offset by an increase in net operating revenues of $2.3 million and a decrease in other expenses of $0.3 million.

The following table sets forth the operating results and production data for the six months ended September 30, 2012 and 2011.

	Six Months Ended September 30,			%
	2012	2011	Increase	Increase
Sale Volumes:				
Crude Oil (Bbls)	46,281	22,841	23,440	103%
Natural Gas & NGL (Mcf)	5,789	12,839	(7,050)	-55%
Total (Boe)	47,246	24,981	22,265	89%
Crude Oil (Bbls per day)	253	125	128	102%
Natural Gas & NGL (Mcf per day)	32	70	(38)	-54%
Total (Boe per day)	258	137	121	88%
Average Sale Price:				
Crude Oil ($/Bbl)	$ 95.40	$ 93.36	$ 2.04	2%
Natural Gas & NGL ($/Mcf)	$ 6.08	$ 5.26	$ 0.82	16%
Net Operating Revenues:				
Crude Oil	$ 4,415,416	$ 2,132,344	$ 2,283,072	107%
Natural Gas & NGL	35,198	67,545	(32,347)	-48%
Total Revenues	$ 4,450,614	$ 2,199,889	$ 2,250,725	102%

Oil and Gas Revenues

Total crude oil and natural gas revenues for the six months ended September 30, 2012 increased $2.3 million, or 102%, to $4.5 million from $2.2 million for the same period a year ago due primarily to a favorable crude oil volume variance of $2.2 million coupled with a slight favorable crude oil price variance of $0.1 million.

Operating and Other Expenses

	Six Months Ended September 30,		Increase	%
	2012	2011	(Decrease)	Incr(Decr)
Lease Operating Expenses	$ 2,082,906	$ 1,634,769	$ 448,137	27%
Severance and Property Taxes	227,380	119,524	107,856	90%
Depreciation, Depletion, and Amortization	1,998,328	698,866	1,299,462	186%
General and Administrative	$ 2,698,742	$ 2,213,826	$ 484,916	22%
Share-Based Compensation	196,107	217,551	(21,444)	-10%
Total G&A Expense	$ 2,894,849	$ 2,431,377	$ 463,472	19%
Other Income (Expense), Net	15,887	(291,709)	307,596	
Interest Expense	(691,529)	(5,842)	(685,687)	

Lease Operating Expenses

Lease operating expenses increased $0.4 million for the current period as compared to the prior year period principally due to increased production costs of $0.2 million from expanded efforts during the current period to increase production volumes from existing wells, to higher lease rental expenses of $0.1 million and higher work-over costs of $0.1 million.

Depreciation, Depletion, Amortization and Accretion

DD&A increased $1.3 million primarily due to an increase in production of 22,265 Boe. The DD&A rate per Boe also increased from $30.47 to $40.93.

General and Administrative Expenses

G&A expenses, including share-based compensation, increased $0.5 million, or 19%, for the six months ended September 30, 2012 as compared to the prior year period. The increase is primarily due to higher employee-related costs of $0.3 million and rental expenses of $0.1 million.

Other Income (Expense), Net

Other Income (Expense) for the six-month period ended September 30, 2011, primarily consisted of an expense of $293,277 representing the increase in the value of the Series C Warrants as a result of the modification of the warrant agreements to incentivize the warrant holders to exercise the warrants in August 2011. The value was calculated based on the Black Scholes option pricing model.

Interest Expense

During the six months ended September 30, 2012, we incurred interest expense of $691,529 on the Nordic 1 note issued during a property acquisition (described in greater detail below under “Liquidity and Capital Resources”).

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of cash for Lucas during the six months ended September 30, 2012 were funds generated from sales of crude oil and natural gas production and proceeds from sale of units consisting of shares of the Company's common stock and warrants to purchase shares of common stock. The primary uses of cash were funds used in operations and additions of oil and gas properties.

At September 30, 2012, our Total Current Liabilities of $31.4 million exceeded our Total Current Assets of $2.4 million due primarily to the $22.0 million non-recourse senior secured promissory note issued in November 2011 in connection with the Nordic 1 acquisition. The note holder is Nordic Oil USA I, LP ("Nordic 1") and the note has a maturity date of November 17, 2012. The Company is in discussion with Nordic 1 regarding making various modifications to the note, which include, among other items, an extension of the term and maturity date of the note. Based on the previous dealings with Nordic 1 and the ongoing affable relationship between the two companies, Lucas is hopeful that the parties will reach an agreement in the near future which will not require Lucas to repay the note on the maturity date. In the event that the note is not modified, the Company intends to return to Nordic 1 the oil and gas properties underlying the note pursuant to the note agreement. The estimated quantities of proved developed and proved undeveloped crude oil reserves of the properties are approximately 35 thousand barrels and 1.2 million barrels, respectively.

In April 2012, the Company closed its registered direct offering of $5.9 million (approximately $5.5 million net, after deducting commissions and other expenses) of securities to certain institutional investors. In total, the Company sold 2.95 million units at a price of $2 per unit. Each unit consists of one share of the Company's common stock and 0.35 of a warrant to purchase one share of the Company's common stock. Each warrant can be exercised to purchase one share of the Company's common stock at an exercise price of $2.30 per share and will become exercisable after six months from the closing date of the offering and for a period of five years thereafter. A total of 2,950,000 shares and 1,032,500 warrants were sold in connection with the offering. In September 2012, the Company sold an aggregate of 800,000 units to certain selected investors. Each unit consists of one share of the Company’s common stock and 0.25 of a warrant to purchase one share of the Company’s common stock at an exercise price of $2.00 per share with a term of one year, at a price of $1.65 per unit, for an aggregate of $1,320,000 in total gross funding. The Company used the funds raised in the offerings to pay down expenses related to drilling, lease operating, workover activities and for general corporate purposes, including general and administrative expenses.

The only material debt that the Company has other than the accounts payable and accrued interest is the $22.0 million non-recourse senior secured promissory note issued in connection with the Nordic Oil USA I, LLLP (Nordic 1), acquisition. In November 2011, Lucas entered into a purchase and sale agreement with Nordic 1, with an effective date of July 1, 2011, to purchase all of Nordic 1's interests in certain oil, gas and mineral leases, rights and assets located in Gonzales, Karnes and Wilson Counties, Texas, which represent all of Nordic 1's interests in the existing two capital programs operated by Lucas (the "Nordic 1 Transaction"). Lucas paid $22 million to Nordic 1 in the form of a non-recourse senior secured promissory note. The note bears interest at 6% per annum and both the principal and interest are due and payable on or before November 17, 2012. As of September 30, 2012, approximately $23 million was outstanding under the note including interest accrued but not paid.

Moving forward, Lucas plans to continue to focus a substantial portion of its capital expenditures in various known prolific and productive geological formations, including the Austin Chalk, Eagle Ford and Buda formations, primarily in Gonzales, Wilson, Karnes and Atascosa Counties south of the City of San Antonio, Texas and in the Eaglebine formation in Leon and Madison Counties north of the City of Houston, Texas. Lucas expects capital expenditures to be greater than cash flow from operating activities for the 2013 fiscal year. To cover the anticipated shortfall, our business plan includes selling certain non-core assets, establishing a reserve-based line of principal on our credit, bank borrowings, and equity and debt offerings.

Cash Flows.

Net cash used in operating activities for the six months ended September 30, 2012 decreased $0.9 million to $1.2 million from $2.1 million for the prior year period. The 0.9 million decrease was primarily due to favorable increased revenues of $2.3 million, partially offset by an increase of cash operating expenses of $1.1 million and an unfavorable changes in working capital and other assets of $0.3 million.

Net cash used in investing activities for the six months ended September 30, 2012 of $6.2 million increased by $1.5 million compared to net cash used in investing activities of $4.7 million for the prior year period due primarily to an unfavorable changes in working capital of $3.1 million and a decrease in net proceeds from the sale of oil and gas properties of $0.1 million, partially offset by a decrease in additions of oil and gas properties of $1.8 million.

Net cash provided by financing activities for the six months ended September 30, 2012 was $7.1 million resulting primarily from the proceeds from the unit offerings as discussed above. For the six months ended September 30, 2011, net cash provided by financing activities was $5.8 million resulting primarily from the exercise of the Series C Warrants which were issued in connection with the unit offering in December 2010.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" but may be found in other locations as well. These forward-looking statements are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements. Factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements include, among others,

- our growth strategies;
- anticipated trends in our business;
- our ability to make or integrate acquisitions;
- our liquidity and ability to finance our exploration, acquisition and development strategies;
- market conditions in the oil and gas industry;
- the timing, cost and procedure for proposed acquisitions;
- the impact of government regulation;
- estimates regarding future net revenues from oil and natural gas reserves and the present value thereof; planned capital expenditures (including the amount and nature thereof);
- increases in oil and gas production;
- the number of wells we anticipate drilling in the future;
- estimates, plans and projections relating to acquired properties; the number of potential drilling locations; and
- our financial position, business strategy and other plans and objectives for future operations.

We identify forward-looking statements by use of terms such as "may," "will," "expect," "anticipate," "estimate," "hope," "plan," "believe," "predict," "envision," "intend," "will," "continue," "potential," "should," "confident," "could" and similar words and expressions, although some forward-looking statements may be expressed differently. You should be aware that our actual results could differ materially from those contained in the forward-looking statements. You should consider carefully the statements under the "Risk Factors" section of this report and our Annual Report on Form 10-K and other sections of this report and our Form 10-K, which describe factors that could cause our actual results to differ from those set forth in the forward-looking statements, and the following factors

- the possibility that our acquisitions may involve unexpected costs;
- the volatility in commodity prices for oil and gas;
- the accuracy of internally estimated proved reserves;
- the presence or recoverability of estimated oil and gas reserves;
- the ability to replace oil and gas reserves;
- the availability and costs of drilling rigs and other oilfield services;
- environmental risks;
- exploration and development risks;
- competition;
- the inability to realize expected value from acquisitions;
- the ability of our management team to execute its plans to meet its goals; and
- other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact our businesses, operations and pricing.

Forward-looking statements speak only as of the date of this report or the date of any document incorporated by reference in this report. Except to the extent required by applicable law or regulation, we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk is the risk of loss arising from adverse changes in market rates and prices. We are exposed to risks related to increases in the prices of fuel and raw materials consumed in exploration, development and production. We do not engage in commodity price hedging activities.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures.

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. The Company's management, including the Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2012.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the six months ended September 30, 2012 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.

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not currently involved in any legal proceedings that we believe could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

ITEM 1A. RISK FACTORS.

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended March 31, 2012 (2012 Annual Report), as filed with the SEC on June 29, 2012. The information in such risk factors, in addition to the other information set forth in this quarterly report, could materially affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or that we deem to be immaterial could also materially adversely affect our business, financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

In July 2012, the holder of our Series B Convertible Preferred Stock converted 2,270 shares of such Series B Convertible Preferred Stock into 2,270,000 shares of our common stock.

We claim an exemption from registration afforded by Section 3(a)(9) of the Securities Act of 1933, as amended, for the above conversion as the securities were exchanged by the Company with its existing security holder exclusively in a transaction where no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange.

In August 2012, Peter K. Grunebaum, our Director, exercised 14,000 warrants to purchase shares of the Company's common stock for aggregate consideration of $14,000 or $1.00 per share and the Company issued Mr. Grunebaum 14,000 shares of restricted common stock.

The Company claims an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended since the foregoing issuance did not involve a public offering, the recipient took the securities for investment and not resale, the Company took appropriate measures to restrict transfer, and the recipient was a Director of the Company.

In August 2012, Meson Capital Partners LP ("Meson LP"), which is an affiliate of Ryan J. Morris, who became our Director effective October 1, 2012, purchased warrants to purchase 83,334 shares of common stock at an exercise price of $1.00 per share (the "Warrants") for an aggregate of $25,000, or $0.30 per Warrant, from the Company's Chairman, J. Fred Hofheinz, and Warrants to purchase an aggregate of 15,167 shares for an aggregate of $4,550, or $0.30 per Warrant, from Peter K. Grunebaum, a member of the Company's Board, in private transactions, which Warrants were subsequently exercised by Meson LP for an aggregate exercise price of $98,501. The Company subsequently issued Meson LP an aggregate of 98,501 shares of restricted common stock.

In August 2012, Gulf Standard Energy Company, LLC, which is beneficially owned by W. Andrew Krusen, Jr., our Director, exercised warrants to purchase 200,000 shares of common stock at an exercise price of $1.00 per share and was issued 200,000 shares of common stock.

The Company claims an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended since the foregoing issuances and transfers did not involve a public offering, the recipient took the securities for investment and not resale, the Company took appropriate measures to restrict transfer, and the recipient was an "accredited investor".

In September 2012, we cancelled 20,000 shares of our common stock as part of a settlement agreement with a shareholder, which shares were originally issued in error.

In September 2012, the holder of our Series B Convertible Preferred Stock converted 554 shares of such Series B Convertible Preferred Stock into 554,000 shares of our common stock. As a result of this conversion,

there are no shares of our Series B Convertible Preferred Stock outstanding.

We claim an exemption from registration afforded by Section 3(a)(9) of the Securities Act of 1933, as amended, for the above conversions as the securities were exchanged by the Company with its existing security holders exclusively in a transaction where no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange.

Use of Proceeds From Sale of Registered Securities

Our Registration Statement on Form S-3 (Reg. No. 333-179980) in connection with the sale by us of up to $10 million in securities (common stock, preferred stock, debt securities, warrants and units) was declared effective by the SEC on March 19, 2012. On September 11, 2012, we filed a Rule 424(b)(5) prospectus supplement relating to the primary offering by us of 800,000 units, with each unit consisting of one share of common stock and 0.25 of a warrant to purchase one share of the Company's common stock at an exercise price of $2.00 per share. As of the date of the filing of this report, the offering has terminated and all units offered pursuant to the prospectus supplement were sold on September 11, 2012. The Company received an aggregate of $1.32 million in gross funding and approximately $1.3 million in net proceeds after paying expenses associated with the offering.

No payments for our expenses were made directly or indirectly to (i) any of our Directors, officers or their associates, (ii) any person(s) owning 10% or more of any class of our equity securities or (iii) any of our affiliates. We used the net proceeds from the offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b).

There has been no material change in the planned use of proceeds from our offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b).

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

ITEM 6. EXHIBITS.

EXHIBIT INDEX

Exhibit No.	Description
* 31.1	Section 302 Certification of Periodic Report of Principal Executive Officer.
* 31.2	Section 302 Certification of Periodic Report of Principal Financial Officer.
* 32.1	Section 906 Certification of Periodic Report of Principal Executive Officer.
* 32.2	Section 906 Certification of Periodic Report of Principal Financial Officer.
* **101.INS	XBRL Instance Document.
* **101.SCH	XBRL Schema Document.
* **101.CAL	XBRL Calculation Linkbase Document.
* **101.DEF	XBRL Definition Linkbase Document.
* **101.LAB	XBRL Label Linkbase Document.
* **101.PRE	XBRL Presentation Linkbase Document.

* Exhibits filed herewith

** Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets –September 30, 2012 and March 31, 2012, (ii) the Condensed Consolidated Statements of Operations - Three and Six Months Ended September 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Cash Flows - Six Months Ended September 30, 2012 and 2011; and (iv) Notes to Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

LUCAS ENERGY, INC.
(Registrant)

Date: November 13, 2012

By: /s/ ANTHONY C. SCHNUR
Anthony C. Schnur
Chief Financial Officer
(Principal Financial Officer and
Duly Authorized Officer)

EXHIBIT INDEX

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EX-31.1
EX-31.1 2 ex31-1.htm CERTIFICATION-WILLIAM A. SAWYER **Exhibit 31.1**

CERTIFICATION

I, William A. Sawyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended September 30, 2012, of Lucas Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2012

/s/ *William A. Sawyer*
William A. Sawyer
Chief Executive Officer (Principal Executive Officer)

EX-31.2
EX-31.2 3 ex31-2.htm CERTIFICATION-ANTHONY C. SCHNUR
Exhibit 31.2

CERTIFICATION

I, Anthony C. Schnur, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended September 30, 2012, of Lucas Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2012

/s/ *Anthony C. Schnur*
Anthony C. Schnur
Chief Financial Officer (Principal Financial Officer)

EX-32.1
EX-32.1 4 ex32-1.htm **Exhibit 32.1**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lucas Energy, Inc. on Form 10-Q for the three months ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William A. Sawyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ *William A. Sawyer*
William A. Sawyer
Chief Executive Officer (Principal Executive Officer)
November 13, 2012

EX-32.2
EX-32.2 5 ex32-2.htm

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lucas Energy, Inc. on Form 10-Q for the three months ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony C. Schnur, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ *Anthony C. Schnur*
Anthony C. Schnur
Chief Financial Officer (Principal Financial Officer)
November 13, 2012