New Concept Energy, Inc.
Form 10-Q
August 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED June 30, 2018

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 000-08187

NEW CONCEPT ENERGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**75-2399477**
(State or Other Jurisdiction	**(I.R.S. Employer**

of **Identification No.)**
Incorporation or Organization)
1603 LBJ Freeway

Suite 300

Dallas, Texas
(Address of principal executive offices)
75234
(Zip Code)
(972) 407-8400
(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 [ ]

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 [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £	Accelerated filer £
Non-accelerated filer £	Smaller reporting company R

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).	Yes: £No: R

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

Common Stock, $.01 par value	**2,131,935 shares**
(Class)	**(Outstanding at August 13, 2018)**

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NEW CONCEPT ENERGY, INC. AND SUBSIDIARIES

Index to Quarterly Report on Form 10-Q

Period ended June 30, 2018

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NEW CONCEPT ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)
(amounts in thousands)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$278	$ 419
Accounts receivable from oil and gas sales	45	67
Other current assets	47	36
Total current assets	370	522
Oil and natural gas properties (full cost accounting method)		
Proved developed and undeveloped oil and gas properties, net of depletion	2,620	2,721
Property and equipment, net of depreciation		
Land, buildings and equipment - oil and gas operations	636	661
Total property and equipment	636	661
Other assets (including $124 due from related parties in 2015)	268	301
Total assets	$3,894	$ 4,205

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

NEW CONCEPT ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
(unaudited)
(amounts in thousands, except share amounts)

	June 30, 2018	December 31, 2017
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable (includes $277 and $412 due to related parties in 2018 & 2017)	$306	$446
Accrued expenses	32	29
Current portion of long term debt	58	81
Total current liabilities	396	556
Long-term debt		
Notes payable less current portion	229	243
Asset retirement obligation	2,770	2,770
Total liabilities	3,395	3,569
Stockholders' equity		
Preferred stock, Series B	1	1
Common stock, $.01 par value; authorized, 100,000,000 shares; issued and outstanding, 2,131,935 shares at June 30, 2018 and December 31, 2017	22	21
Additional paid-in capital	59,170	59,000
Accumulated deficit	(58,694)	(58,386)
Total Shareholder Equity	499	636
Total liabilities & equity	$3,894	$4,205

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

NEW CONCEPT ENERGY, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(unaudited)
(amounts in thousands, except per share data)

	For the Three Months ended June 30,		For the Six Months ended June 30,	
	2018	2017	2018	2017
Revenue				
Oil and gas operations, net of royalties	$173	$243	$377	$438
Operating expenses				
Oil and gas operations	239	256	514	512
Corporate general and administrative	108	122	183	222
Total Operating Expenses	347	378	697	734
Operating earnings (loss)	(174)	(135)	(320)	(296)
Other income (expense)				
Interest income	4	11	11	15
Interest expense	(5)	(6)	(11)	(13)
Other income (expense)	1	6	12	(2)
	0	11	12	0
Loss from continuing operations	(174)	(124)	(308)	(296)
Earnings (loss) from discontinued operations	0	(11)	0	2
Net income (loss) applicable to common shares	$(174)	$(135)	$(308)	$(294)
Net income (loss) per common share-basic and diluted	$(0.08)	$(0.07)	$(0.14)	$(0.15)
Weighted average common and equivalent shares outstanding - basic	2,132	1,947	2,132	1,947

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

NEW CONCEPT ENERGY, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(amounts in thousands)

	For the Six Months Ended June 30, 2018	2017
Cash flows from operating activities		
Net income (loss)	$(308)	$(294)
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation, depletion and amortization	128	227
Write-off of retirement center assets	—	24
Changes in operating assets and liabilities		
Other current and non-current assets	44	123
Accounts payable and other liabilities	(137)	284
Net cash provided by (used) in operating activities	(273)	364
Cash flows from investing activities		
Investment in undeveloped land	—	(10)
Fixed asset additions	—	(2)
Net cash provided by (used in) investing activities	—	(12)
Cash flows from financing activities		
Payment on notes payable	(39)	(32)
Sale of common stock	171	—
Net cash provided by (used in) financing activities	132	(32)
Net increase (decrease) in cash and cash equivalents	(141)	320
Cash and cash equivalents at beginning of year	419	113
Cash and cash equivalents at end of period	$278	$433
Supplemental disclosures of cash flow information		
Cash paid for interest on notes payable	$11	$13
Cash paid for principal on notes payable	$39	$32

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

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NEW CONCEPT ENERGY, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

NOTE A: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of New Concept Energy, Inc. and its majority-owned subsidiaries (collectively, "NCE" or the "Company"). All significant intercompany transactions and accounts have been eliminated. Certain reclassifications have been made to the prior year revenue and operating expense amounts in the statement of operations to conform to the current year presentation.

The unaudited financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2017. Operating results for the three and six month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for any subsequent quarter or for the fiscal year ending December 31, 2018.

NOTE B: NATURE OF OPERATIONS

The Company operates oil and gas wells and mineral leases in Athens and Meigs Counties in Ohio and in Calhoun, Jackson and Roane Counties in West Virginia through its wholly owned subsidiaries Mountaineer State Energy, Inc. and Mountaineer State Operations, LLC.

NOTE C: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We consider accounting policies related to our estimates of depreciation amortization and depletion, segments, oil and gas properties, oil and gas reserves, gas gathering assets, office and field equipment, revenue recognition and gas imbalances, leases, revenue recognition for real estate operations, impairment, and sales of real estate as significant accounting policies. The policies include significant estimates made by management using information available at the time the estimates are made. However, these estimates could change materially if different information or assumptions were used. These policies are summarized in our Annual Report on Form 10-K for the year ended December 31, 2017.

NOTE D: OIL AND GAS RESERVES

The Company uses the full cost method of accounting for its investment in oil and natural gas properties. Under this method of accounting, all costs of acquisition, exploration and development of oil and natural gas properties (including such costs as leasehold acquisition costs, geological expenditures, dry hole costs, tangible and intangible development costs and direct internal costs) are capitalized as the cost of oil and natural gas properties when incurred.

The full cost method requires the Company to calculate quarterly, by cost center, a “ceiling,” or limitation on the amount of properties that can be capitalized on the balance sheet. To the extent capitalized costs of oil and natural gas properties, less accumulated depletion and related deferred taxes exceed the sum of the discounted future net revenues of proved oil and natural gas reserves, the lower of cost or estimated fair value of unproved properties subject to amortization, the cost of properties not being amortized, and the related tax amounts, such excess capitalized costs are charged to expense.

NOTE E: CONTINGENCIES

Carlton Litigation

Since December 2006, Carlton Energy Group, LLC (“Carlton”), an individual, Eurenergy Resources Corporation (“Eurenergy”) and several other entities, including New Concept Energy, Inc., which was then known as CabelTel International Corporation (the “Company”), have been involved in contentious litigation alleging tortuous conduct, breach of contract and other matters and, as to the Company, that it was the alter ego of Eurenergy. The Carlton claims were based upon an alleged tortuous interference with a contract by the individual and

Eurenergy related to the right to explore a coal bed methane concession in Bulgaria which had never (and has not to this day) produced any hydrocarbons. At no time during the pendency of this project or since did the Company or any of its officers or directors have any interest whatsoever in the success or failure of the so-called "Bulgaria Project." However, in the litigation Carlton alleged that the Company was the alter ego of certain of the other defendants, including Eurenergy.

Following a jury trial in 2009, the Trial Court (295th District Court of Harris County, Texas) cross appeals were filed by Carlton, the individual and Eurenergy to the Court of Appeals for the First District of Texas (the "Court of Appeals"), which, in February 2012, rendered an opinion. The Company and the other defendants filed a Petition for Review of the Court of Appeals' Opinion with the Supreme Court of the State of Texas. On May 8, 2015, the Supreme Court of Texas affirmed, in part, and reversed, in part, the Court of Appeals' judgment, remanding the case to the Court of Appeals for further proceedings. On remand, the Court of Appeals reinstated a verdict on damages in the amount of $31.16 million against the individual and Eurenergy.

During August 2017, the parties to the litigation reached an arrangement, the final terms of which will not be determined until the outcome of another appeal to the Supreme Court. Under the terms of the arrangement, the Company should have no financial responsibility to Carlton, nor should any potential final outcome materially adversely affect the Company, in management's opinion.

<u>Other</u>

The Company has been named as a defendant in other lawsuits in the ordinary course of business. Management is of the opinion that these lawsuits will not have a material effect on the financial condition, results of operations or cash flows of the Company.

NOTE F: NEWLY ISSUED ACCOUNTING STANDARDS

We have considered all other newly issued accounting guidance that is applicable to our operations and the preparation of our financial statements including that which we have not yet adopted. We do not believe that any such guidance will have a material effect on our financial position or results of operations.

NOTE G: SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 13, 2018, the date the financial statements were available to be issued, and determined that there are none to be reported.

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

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Certain of the Company's accounting policies require the application of judgment in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments and estimates are based upon the Company's historical experience, current trends and information available from other sources that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company's significant accounting policies are summarized in Note B to our consolidated financial statements in our annual report on Form 10-K. The Company believes the following critical accounting policies are more significant to the judgments and estimates used in the preparation of its consolidated financial statements. Revisions in such estimates are recorded in the period in which the facts that give rise to the revisions become known.

Oil and Gas Property Accounting

The Company uses the full cost method of accounting for its investment in oil and natural gas properties. Under this method of accounting, all costs of acquisition, exploration and development of oil and natural gas properties (including such costs as leasehold acquisition costs, geological expenditures, dry hole costs, tangible and intangible development costs and direct internal costs) are capitalized as the cost of oil and natural gas properties when incurred.

The full cost method requires the Company to calculate quarterly, by cost center, a “ceiling,” or limitation on the amount of properties that can be capitalized on the balance sheet. To the extent capitalized costs of oil and natural gas properties, less accumulated depletion and related deferred taxes exceed the sum of the discounted future net revenues of proved oil and natural gas reserves, the lower of cost or estimated fair value of unproved properties subject to amortization, the cost of properties not being amortized, and the related tax amounts, such excess capitalized costs are charged to expense.

Doubtful Accounts

The Company’s allowance for doubtful accounts receivable and notes receivable is based on an analysis of the risk of loss on specific accounts. The analysis places particular emphasis on past due accounts. Management considers such information as the nature and age of the receivable, the payment history of the tenant, customer or other debtor and the financial condition of the tenant or other debtor. Management’s estimate of the required allowance, which is reviewed on a quarterly basis, is subject to revision as these factors change.

Deferred Tax Assets

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. The future recoverability of the Company’s net deferred tax assets is dependent upon the generation of future taxable income prior to the expiration of the loss carry forwards. At June 30, 2018, the Company had a deferred tax asset due to tax deductions available to it in future years. However, as management could not determine that it was more likely than not that the benefit of the deferred tax asset would be realized, a 100% valuation allowance was established.

Liquidity and Capital Resources

At June 30, 2018, the Company had current assets of $370,000 and current liabilities of $396,000.

Cash and cash equivalents at June 30, 2018 were $278,000 as compared to $419,000 at December 31, 2017.

Net cash used in operating activities was $273,000 for the six months ended June 30, 2018.

Net cash provided by financing activities was $132,000 for the six months ended June 30, 2018.

Results of Operations

Comparison of the three months ended June 30, 2018 to the same period in 2017

The Company reported a net loss of $174, 000 for three months ended June 30, 2018, as compared to net loss of $135, 000 for the similar period in 2017.

For the three months ended June 30, 2018, the Company recorded oil and gas revenues of $173, 000 as compared to $243 000 for the comparable period of 2017. The decrease was principally due to a decrease in the rate the Company received for the sale of its natural gas. In April 2018 a long term rate agreement expired and the price the Company received for its gas reverted to the existing market price which was less than the rate in the expired agreement.

For the three months ended June 30, 2018, the Company recorded oil and gas operating expenses of $239, 000 as compared to $256,000 for the comparable period of 2017. The decrease was due to overall decrease in general operating expenses.

For the three months ended June 30, 2018, corporate general & administrative expenses were $108, 000 as compared to $122,000 for the comparable periods in 2017. The decrease was due to a decrease in payroll expenses as well as other administrative costs.

Comparison of the six months ended June 30, 2018 to the same period in 2017

The Company reported a net loss of $308, 000 for three months ended June 30, 2018, as compared to net loss of $294,000 for the similar period in 2017.

For the six months ended June 30, 2018, the Company recorded oil and gas revenues of $377,000 as compared to $438,000 for the comparable period of 2017. The decrease was due to the rate the Company received for the sale of its natural gas during the second quarter of 2018.

For the six months ended June 30, 2018, the Company recorded oil and gas operating expenses of $514, 000 as compared to

$512, 000 for the comparable period of 2017.

For the six months ended June 30, 2018, corporate general & administrative expenses were $183,000 as compared to $222,000 for the comparable periods in 2017. The decrease was due to a decrease in payroll expenses as well as other administrative costs.

Forward Looking Statements

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: A number of the matters and subject areas discussed in this filing that are not historical or current facts deal with potential future circumstances, operations and prospects. The discussion of such matters and subject areas is qualified by the inherent risks and uncertainties surrounding future expectations generally, and also may materially differ from the Company's actual future experience involving any one or more of such matters and subject areas relating to interest rate fluctuations, the ability to obtain adequate debt and equity financing, demand, pricing, competition, construction, licensing, permitting, construction delays on new developments, contractual and licensure, and other delays on the disposition, transition, or restructuring of currently or previously owned, leased or managed properties in the Company's portfolio, and the ability of the Company to continue managing its costs and cash flow while maintaining high occupancy rates and market rate charges in its retirement community. The Company has attempted to identify, in context, certain of the factors that it currently believes may cause actual future experience and results to differ from the Company's current expectations regarding the relevant matter of subject area. These and other risks and uncertainties are detailed in the Company's reports filed with the Securities and Exchange Commission ("SEC"), including the Company's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q.

Inflation

The Company's principal source of revenue is rents from a retirement community and fees for services rendered. The real estate operation is affected by rental rates that are highly dependent upon market conditions and the competitive environment in the areas where the property is located. Compensation to employees and maintenance are the principal cost elements relative to the operation of this property. Although the Company has not historically experienced any adverse effects of inflation on salaries or other operating expenses, there can be no assurance that such trends will continue or that, should inflationary pressures arise, the Company will be able to offset such costs by increasing rental rates in its real estate operation.

Environmental Matters

The Company has conducted environmental assessments on most of its existing owned or leased properties. These assessments have not revealed any environmental liability that the Company believes would have a material adverse effect on the Company's business, assets or results of operations. The Company is not aware of any such environmental liability. The Company believes that all of its properties are in compliance in all material respects with all federal, state and local laws, ordinances and regulations regarding hazardous or toxic substances or petroleum products. The Company has not been notified by any governmental authority and is not otherwise aware of any material non-compliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of its communities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Nearly all of the Company's debt is financed at fixed rates of interest. Therefore, the Company has minimal risk from exposure to changes in interest rates.

Item 4. CONTROLS AND PROCEDURES

(a) Based on an evaluation by our management (with the participation of our Principal Executive Officer and Principal Financial Officer), as of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosures.

(b) There has been no change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

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

In April 2018, pursuant to a Subscription Agreement and Letter of Investment Intent between the Company and an independent third party, the Company issued 95,000 shares of Common Stock at a price of $1.80 per share. The proceeds of $171,000 in cash was utilized by the Company to pay existing obligations of the Company.

No underwriter was involved in the transaction, which was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) of such Act, as a transaction by an issuer not involving any public offering.

Item 6. Exhibits

The following exhibits are filed herewith or incorporated by reference as indicated below.

Exhibit Designation	**Exhibit Description**
3.1	Articles of Incorporation of Medical Resource Companies of America (incorporated by reference to Exhibit 3.1 to Registrant's Form S-4 Registration Statement No. 333-55968 dated December 21, 1992)
3.2	Amendment to the Articles of Incorporation of Medical Resource Companies of America (incorporated by reference to Exhibit 3.5 to Registrant's Form 8-K dated April 1, 1993)
3.3	Restated Articles of Incorporation of Greenbriar Corporation (incorporated by reference to Exhibit 3.1.1 to Registrant's Form 10-K dated December 31, 1995)
3.4	Amendment to the Articles of Incorporation of Medical Resource Companies of America (incorporated by reference to Exhibit to Registrant's PRES 14-C dated February 27, 1996)
3.5	Bylaws of Registrant (incorporated by reference to Exhibit 3.2 to Registrant's Form S-4 Registration Statement No. 333-55968 dated December 21, 1992)
3.6	Amendment to Section 3.1 of Bylaws of Registrant adopted October 9, 2003 (incorporated by reference to Exhibit 3.2.1 to Registrant's Form S-4 Registration Statement No. 333-55968 dated December 21, 1992)
3.7	Certificate of Decrease in Authorized and Issued Shares effective November 30, 2001 (incorporated by reference to Exhibit 2.1.7 to Registrant's Form 10-K dated December 31, 2002)
3.8	Certificate of Designations, Preferences and Rights of Preferred Stock dated May 7, 1993 relating to Registrant's Series B Preferred Stock (incorporated by reference to Exhibit 4.1.2 to Registrant's Form S-3 Registration Statement No. 333-64840 dated June 22, 1993)
3.9	Certificate of Voting Powers, Designations, Preferences and Rights of Registrant's Series F Senior Convertible Preferred Stock dated December 31, 1997 (incorporated by reference to Exhibit 2.2.2 of Registrant's Form 10-KSB for the fiscal year ended December 31, 1997)
3.10	Certificate of Voting Powers, Designations, Preferences and Rights of Registrant's Series G Senior Non-Voting Convertible Preferred Stock dated December 31, 1997 (incorporated by reference to Exhibit 2.2.3 of Registrant's Form 10-KSB for the fiscal year ended December 31, 1997)
3.11	Certificate of Designations dated October 12, 2004 as filed with the Secretary of State of Nevada on October 13, 2004 (incorporated by reference to Exhibit 3.4 of Registrant's Current Report on Form 8-K for event occurring October 12, 2004)

3.12	Certificate of Amendment to Articles of Incorporation effective February 8, 2005 (incorporated by reference to Exhibit 3.5 of Registrant's Current Report on Form 8-K for event occurring February 8, 2005)
3.13	Certificate of Amendment to Articles of Incorporation effective March 21, 2007 (incorporated by reference to Exhibit 3.13 of Registrant's Current Report on Form 8-K for event occurring March 21, 2005)
31.1*	Certification pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended, of Principal Executive Officer and Chief Financial Officer
32.1*	Certification of Principal Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350
101	Interactive data files pursuant to Rule 405 of Regulation S-T.

*Filed herewith.

Signatures

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

	New Concept Energy, Inc.
Date: August 13, 2018	By: /s/ Gene Bertcher Gene S. Bertcher, Principal Executive Officer, President and Chief Financial Officer