

New Concept Energy, Inc.  
Form 10-Q  
November 14, 2017

**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 SEPTEMBER 30, 2017**

**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)**

|                     |                       |
|---------------------|-----------------------|
| <b>Nevada</b>       | <b>75-2399477</b>     |
| <b>(State</b>       | <b>(I.R.S.</b>        |
| <b>or</b>           | <b>Employer</b>       |
| <b>Other</b>        |                       |
| <b>Jurisdiction</b> | <b>Identification</b> |
| <b>of</b>           | <b>No.)</b>           |

**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: 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: 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 1,946,934 shares**  
**(Class) (Outstanding at November 14, 2017)**

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**NEW CONCEPT ENERGY, INC. AND SUBSIDIARIES**

Index to Quarterly Report on Form 10-Q

Period ended September 30, 2017

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

|   | September<br>30, 2017 | December<br>31, 2016 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Current assets  |                       |                      |
| Cash and cash equivalents   | \$ 427                | \$ 113               |
| Accounts receivable from oil and gas sales                                | 129                   | 119                  |
| Other current assets  | 61                    | 206                  |
| Total current assets  | 617                   | 438                  |
| Oil and natural gas properties (full cost accounting method)              |                       |                      |
| Proved developed and undeveloped oil and gas properties, net of depletion | 5,428                 | 5,608                |
| Property and equipment, net of depreciation                               |                       |                      |
| Land, buildings and equipment - oil and gas operations                    | 675                   | 706                  |
| Other   | —                     | 25                   |
| Total property and equipment  | 675                   | 731                  |
| Other assets  | 308                   | 401                  |
| Total assets  | \$ 7,028              | \$ 7,178             |

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)

|   | September<br>30, 2017 | December<br>31, 2016 |
|---|-----------------------|----------------------|
| Liabilities and stockholders' equity  |                       |                      |
| Current liabilities   |                       |                      |
| Accounts payable - trade (including \$513 and \$160 at 2017 and 2016 due to related parties)  | \$525                 | \$238                |
| Accrued expenses  | 67                    | 59                   |
| Current portion of long term debt   | 85                    | 96                   |
| Total current liabilities   | 677                   | 393                  |
| Long-term debt  |                       |                      |
| Notes payable less current portion  | 259                   | 296                  |
| Asset retirement obligation   | 2,770                 | 2,770                |
| Total liabilities   | 3,706                 | 3,459                |
| Stockholders' equity  |                       |                      |
| Preferred stock, Series B   | 1                     | 1                    |
| Common stock, \$.01 par value; authorized, 100,000,000<br>shares; issued and outstanding, 1,946,934 shares<br>at September 30, 2017 and December 31, 2016 | 20                    | 20                   |
| Additional paid-in capital  | 58,838                | 58,838               |
| Accumulated deficit   | (55,537)              | (55,140)             |
|   | 3,322                 | 3,719                |
| Total liabilities & equity  | \$7,028               | \$7,178              |

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<br>Months ended<br>September 30,<br>2017 |           | For the Nine<br>Months ended<br>September 30,<br>2016 |           |
|---|--|-----------|---|-----------|
|   | 2017   | 2016      | 2017  | 2016      |
| Revenue   |  |           |   |           |
| Oil and gas operations, net of royalties                  | \$ 194   | \$ 190    | \$ 632  | \$ 579    |
| Total Revenue   | 194  | 190       | 632   | 579       |
| Operating expenses  |  |           |   |           |
| Oil and gas operations                                    | 254  | 295       | 766   | 924       |
| Corporate general and administrative                      | 95   | 52        | 317   | 319       |
|   | 349  | 347       | 1,083   | 1,243     |
| Operating earnings (loss)                                 | (155 )   | (157 )    | (451 )  | (664 )    |
| Other income (expense)                                    |  |           |   |           |
| Interest income   | 5  | 6         | 20  | 17        |
| Interest expense  | (6 )   | (8 )      | (19 )   | (26 )     |
| Other income (expense), net                               | 66   | (11 )     | 51  | (21 )     |
| Other income (expense)                                    | 65   | (13 )     | 52  | (30 )     |
| Loss from continuing operations                           | \$(90 )  | \$(170 )  | \$(399 )  | \$(694 )  |
| Earnings (loss) from discontinued operations              | (11 )  | 6         | 2   | 101       |
| Net loss applicable to common shares                      | (101 )   | (164 )    | (397 )  | (593 )    |
| Net income (loss) per common share-basic and diluted      | \$(0.05 )  | \$(0.08 ) | \$(0.20 )   | \$(0.30 ) |
| Weighted average common and equivalent shares outstanding | 1,947  | 1,947     | 1,947   | 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 Nine<br>Months Ended<br>September 30,<br>2017 2016 |         |
|--|--|---------|
| Cash flows from operating activities   |  |         |
| Net income (loss)  | \$(397)  | \$(593) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities |  |         |
| Depreciation, depletion and amortization   | 303  | 393     |
| Write-off of assets from discontinued operations   | 24   | —       |
| Changes in operating assets and liabilities  |  |         |
| Other current and non-current assets   | 153  | (20 )   |
| Accounts payable and other liabilities   | 295  | 361     |
| Net cash provided by (used) in operating activities  | 378  | 141     |
| Cash flows from investing activities   |  |         |
| Investment in undeveloped land   | (10 )  | —       |
| Fixed asset additions  | (2 )   | (45 )   |
| Cash portion from the sale of land   | —  | —       |
| Repayment of loan from affiliate   | —  | —       |
| Net cash provided by (used in) investing activities  | (12 )  | (45 )   |
| Cash flows from financing activities   |  |         |
| Payment on notes payable   | (52 )  | (39 )   |
| Net cash provided by (used in) financing activities  | (52 )  | (39 )   |
| Net increase (decrease) in cash and cash equivalents                                       | 314  | 57      |
| Cash and cash equivalents at beginning of year   | 113  | 473     |
| Cash and cash equivalents at end of year   | \$427  | \$530   |
| Supplemental disclosures of cash flow information:   |  |         |
| Cash paid for interest on notes payable  | \$19   | \$13    |
| Cash paid for principal on notes payable   | \$71   | \$66    |

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



## **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.

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, 2016. Operating results for the nine month period ended September 30, 2017 are not necessarily indicative of the results that may be expected for any subsequent quarter or for the fiscal year ending December 31, 2017.

#### **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, LLC and Mountaineer State Operations, LLC.

Until March 30, 2017 the Company leased and operated a retirement center in King City, Oregon with a capacity of 114 residents. The terms of the lease agreement provided that if the facility was sold to a third party the lease would be terminated. On March 30, 2017 the owners of the facility sold the facility. The operations of the retirement center have been reflected as a discontinued operation.

**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, 2016.

**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.

The standardized measure of discounted future net cash flows and changes in such cash flows are prepared using assumptions required by the Financial Accounting Standards Board and the Securities and Exchange Commission. Such assumptions include a standardized method for determining pricing and require that future cash flow be discounted using a 10% rate. The valuation that results may not represent management’s estimated current market value of proved reserves.

During the past few years the exploration, development and production of natural gas has resulted in an oversupply of natural gas which has resulted in a substantial reduction in the market price. Management of the Company believes that this oversupply will last for some time and does not anticipate an increase in the price we can receive in the market place. In April 2012 the Company entered into an agreement to fix the price it receives for the sale of its gas. For the five years ended April 2017 the Company received \$4.53 per MCF. For the month period June thru August the Company received \$3.77 per MCF and for the period September 1, 2017 through December 31, 2017 the Company is receiving \$3.40 per MCF.

## **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 (295<sup>th</sup> 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, nor should any potential final outcome materially adversely affect the Company, in management’s opinion.

### Other

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 operation 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 consolidated 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 or operation.

**NOTE G: SUBSEQUENT EVENTS**

During the fourth quarter the Company, in a private placement, sold 90,000 newly issued shares for \$1.80 per share. The proceeds were used for general working capital purposes.

The Company has evaluated subsequent events through November 14, 2017, the date the financial statements were available to be issued, and has 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.



The standardized measure of discounted future net cash flows and changes in such cash flows are prepared using assumptions required by the Financial Accounting Standards Board and the Securities and Exchange Commission. Such assumptions include a standardized method for determining pricing and require that future cash flow be discounted using a 10% rate. The valuation that results may not represent management's estimated current market value of proved reserves.

### **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 September 30, 2017 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 September 30, 2017, the Company had current assets of \$617,000 and current liabilities of \$677,000.

Cash and cash equivalents at September 30, 2017 were \$427,000 as compared to \$113,000 at December 31, 2016.

Net cash provided from operating activities was \$378,000 for the nine months ended September 30, 2017. During the nine-month period, the Company had a net loss of \$397,000.

Net cash used in investing activities was \$12,000 for the nine months ended September 30, 2017. This represents land and fixed assets acquired to support the Company's oil & gas operation

Net cash used in financing activities was \$52,000 for the nine months ended September 30, 2017, consisting of the repayment of bank loans.

## **Results of Operations**

The following discussion is based on our Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016 as included in Part 1, Item 1: Financial statements of this report.

### ***Comparison of the three months ended September 30, 2017 to the same period ended 2016***

The Company reported a net loss of \$101,000 for the three months ended September 2017, as compared to a net loss of \$170,000 for the similar period in 2016.

For the three months ended September 30, 2017, the Company recorded oil and gas revenues, net of royalty expenses of \$194,000 as compared to \$190,000 for the comparable period of 2016.

For the three months ended September 30, 2017, the Company recorded oil and gas operating expenses of \$254,000 as compared to \$295,000 for the comparable period of 2016. The decrease was principally due to a reduction of depletion expenses.

For the three months ended September 30, 2017, corporate general & administrative expenses were \$95,000 as compared to \$52,000 for the comparable periods in 2016. The increase was due to overall operating expenses during the quarter.

For the three months ended September 30, 2017 other income was \$66,000 as compared to an expense of \$11,000 for the comparable period of 2016. The most significant item is in August 2017 the Company received a payment of \$64,000 for a receivable it had written of a number of years ago.

*Comparison of the nine months ended September 30, 2017 to the same period ended 2016*

The Company reported a net loss of \$397,000 for the nine months ended September 2017, as compared to a net loss of \$694,000 for the similar period in 2016.

For the nine months ended September 30, 2017, the Company recorded oil and gas revenues, net of royalty expenses of \$632,000 as compared to \$579,000 for the comparable period of 2016. The increase in oil and gas revenue was principally due to an increase production in 2017 as compared to 2016.

For the nine months ended September 30, 2017, the Company recorded oil and gas operating expenses of \$766,000 as compared to \$924,000 for the comparable period of 2016. The decrease was due to a decrease in depletion expense and in overall operating expenses as the Company has actively been reducing costs.

For the nine months ended September 30, 2017, corporate general & administrative expenses were \$317,000 as compared to \$319,000 for the comparable periods in 2016.

For the nine months ended September 30, 201