New Concept Energy, Inc.
Form 10-Q
August 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 JUNE 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)

Nevada	**75-2399477**
(State or Other Jurisdiction of	**(I.R.S. Employer 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: 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 August 14, 2017)**

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NEW CONCEPT ENERGY, INC. AND SUBSIDIARIES

Index to Quarterly Report on Form 10-Q

Period ended June 30, 2017

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$433	$ 113
Accounts receivable from oil and gas sales	143	119
Other current assets	87	206
Total current assets	663	438
Oil and natural gas properties (full cost accounting method)		
Proved developed and undeveloped oil and gas properties, net of depletion	5,489	5,608
Property and equipment, net of depreciation		
Land, buildings and equipment - oil and gas operations	689	706
Other	—	25
Total property and equipment	689	731
Other assets (including $124 due from related parties in 2015)	298	401
Total assets	$7,139	$ 7,178

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

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

	June 30, 2017	December 31, 2016
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable (includes $540 and $160 due to related parties in 2017 & 2016)	$555	$238
Accrued expenses	26	59
Current portion of long term debt	87	96
Total current liabilities	668	393
Long-term debt		
Notes payable less current portion	276	296
Asset retirement obligation	2,770	2,770
Total liabilities	3,714	3,459
Stockholders' equity		
Preferred stock, Series B	1	1
Common stock, $.01 par value; authorized, 100,000,000 shares; issued and outstanding, 1,946,935 shares at June 30, 2017 and December 31, 2016	20	20
Additional paid-in capital	58,838	58,838
Accumulated deficit	(55,434)	(55,140)
	3,425	3,719
Total liabilities & equity	$7,139	$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 Months ended June 30,		For the Six Months ended June 30,	
	2017	2016	2017	2016
Revenue				
Oil and gas operations, net of royalties	$243	$170	$438	$389
Total Revenue	243	170	438	389
Operating expenses				
Oil and gas operations	256	233	512	629
Corporate general and administrative	122	101	222	267
Total Operating Expenses	378	334	734	896
Operating earnings (loss)	(135)	(164)	(296)	(507)
Other income (expense)				
Interest income	11	5	15	11
Interest expense	(6)	(7)	(13)	(18)
Other income (expense)	6	(5)	(2)	(10)
	11	(7)	0	(17)
Loss from continuing operations	(124)	(171)	(296)	(524)
Earnings (loss) from discontinued operations	(11)	38	2	95
Net income (loss) applicable to common shares	$(135)	$(133)	$(294)	$(429)
Net income (loss) per common share-basic and diluted	$(0.07)	$(0.07)	$(0.15)	$(0.22)
Weighted average common and equivalent shares outstanding - basic	1,947	1,947	1,947	1,947

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

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

	For the Six Months Ended June 30, 2017	2016
Cash flows from operating activities		
Net income (loss)	$(294)	$(429)
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation, depletion and amortization	227	294
Write-off of retirement center assets	24	—
Changes in operating assets and liabilities		
Other current and non-current assets	123	(13)
Accounts payable and other liabilities	284	207
Net cash provided by (used) in operating activities	364	59
Cash flows from investing activities		
Investment in undeveloped land	(10)	—
Fixed asset additions	(2)	(23)
Net cash provided by (used in) investing activities	(12)	(23)
Cash flows from financing activities		
Payment on notes payable	(32)	(35)
Net cash provided by (used in) financing activities	(32)	(35)
Net increase (decrease) in cash and cash equivalents	320	1
Cash and cash equivalents at beginning of year	113	473
Cash and cash equivalents at end of year	$433	$474
Supplemental disclosures of cash flow information		
Cash paid for interest on notes payable	$13	$18
Cash paid for principal on notes payable	$32	$40

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 six month period ended June 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 will receive $3.77 per MCF.

NOTE E: CONTINGENCIES

Carlton Energy Group, LLC

In December 2006, Carlton Energy Group, LLC ("Carlton") instituted litigation against 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") 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) reduced the actual damages found by the jury of $66.5 million and entered judgment against EurEnergy and The individual jointly and severally for $31.16 million in actual damages on its tortuous-interference claim and the Court further assessed exemplary damages against The individual and EurEnergy in the amount of $8.5 million each. The Court granted a judgment for the Company that it was not the alter ego of any of the other parties and thereby would not incur any damages.

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 rendered its opinion on February 14, 2012. The Court of Appeals opinion, among other things, reinstated the jury award of actual damages jointly and severely against The individual and EurEnergy in the amount of $66.5 million and overturned the Trial Court's ruling favorable to the Company rendering a judgment for that amount plus exemplary damages against the Company as the "alter ego" of Eurenergy.

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 that Court for further proceedings. In its opinion, the Supreme Court concluded that the evidence supports the Jury's verdict that the individual used the Company and other entities, that it would be unjust to require Carlton to treat them separately and found that the Company was an alter ego as a matter of law. The Supreme Court determined that the Court of Appeals erred in reinstating the jury's verdict on damages in the amount of $66.5 million as the amount was speculative and not supported by competent evidence. The court declined to reinstate the trial court's judgment of $31.16 million. The Supreme Court did rule that there was some evidence to support an award of actual damages and therefore remanded the case to the Court of Appeals to make a factual sufficiency determination, if possible, as to as to the amount. The defendants have filed a Motion for Rehearing requesting clarification of the Supreme Court's ruling and/or a remand to the trial court for a new trial.

During August 2017, the parties to the litigation reached an arrangement, the final terms of which will not be determined until the outcome of the appeal of the litigation and are also subject to Bankruptcy Court Approval. Under the terms of the arrangement, Management believes that the Company will have no financial responsibility nor any potential unfavorable outcome, which could materially adversely affect the Company.

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 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 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

The Company has evaluated subsequent events through August 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 June 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 June 30, 2017, the Company had current assets of $663,000 and current liabilities of $668,000.

Cash and cash equivalents at June 30, 2017 were $433,000 as compared to $113,000 at December 31, 2016.

Net cash provided from operating activities was $364,000 for the six months ended June 30, 2017. During the six-month period, the Company had a net loss of $294,000.