

New Concept Energy, Inc.
Form 10-Q
November 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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
(State or Other Jurisdiction of
Incorporation or Organization)

75-2399477
(I.R.S. Employer
Identification No.)

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

Edgar Filing: New Concept Energy, Inc. - Form 10-Q

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
(Class)

1,946,935 shares
(Outstanding at November 14, 2012)

NEW CONCEPT ENERGY, INC. AND SUBSIDIARIES
Index to Quarterly Report on Form 10-Q
Period ended September 30, 2012

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements	3
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Cash Flows	6
Notes To Consolidated Financial Statements	7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
---	----

Item 3. Quantitative and Qualitative Disclosures About Market Risk	13
--	----

Item 4. Controls and Procedures	13
---------------------------------	----

PART II: OTHER INFORMATION 14

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	14
---	----

Item 6. Exhibits	15
------------------	----

Signatures	16
------------	----

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	\$235	\$109
Accounts receivable from oil and gas sales	177	167
Other current assets	5	20
Total current assets	417	296
Oil and natural gas properties (full cost accounting method)		
Proved developed and undeveloped oil and gas properties, net of depletion	9,856	11,141
Property and equipment, net of depreciation		
Land, buildings and equipment - oil and gas operations	1,429	1,486
Other	184	150
Total property and equipment	1,613	1,636
Other assets	635	377
Total assets	12,521	\$13,450

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 30, 2012	December 31, 2011
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable - trade	\$ 110	\$ 422
Accrued expenses	242	417
Total current liabilities	352	839
Long-term debt		
Notes payable	2,347	2,249
Payable - related parties	-	691
Asset retirement obligation	2,770	2,702
Other long-term liabilities	490	491
Total liabilities	5,959	6,972
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 March 31, 2012 and December 31, 2011	20	20
Additional paid-in capital	58,838	58,838
Accumulated deficit	(52,297)	(52,381)
	6,562	6,478
Total liabilities & equity	\$ 12,521	\$ 13,450

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

NEW CONCEPT ENERGY, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATION
 (unaudited)
 (amounts in thousands, except per share data)

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2012	2011	2012	2011
Revenue				
Oil and gas operations, net of royalties	\$274	\$313	\$889	\$873
Real estate operations	702	690	2,039	2,152
	976	1,003	2,928	3,025
Operating expenses				
Oil and gas operations	432	325	1,356	1,025
Real estate operations	359	440	1,078	1,151
Lease expense	231	192	693	576
Corporate general and administrative	108	101	402	351
Accretion of asset retirement obligation	-	32	68	96
Impairment of natural gas and oil properties	-	-	912	-
	1,130	1,090	4,509	3,199
Operating earnings (loss)	(154)	(87)	(1,581)	(174)
Other income (expense)				
Interest income	-	121	-	360
Interest expense	(52)	(31)	(170)	(93)
Other income (expense), net	1,726	(60)	1,835	13
Income/(Expense)	1,674	30	1,665	280
Net income (loss) applicable to common shares	\$1,520	\$(57)	\$84	\$106
Net income (loss) per common share-basic and diluted	\$0.78	\$(0.03)	\$0.04	\$0.05
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.

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

	For the Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities		
Net income/loss	\$ 84	\$ 106
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation, depletion and amortization	570	300
Accretion of asset retirement obligation	158	96
Changes in operating assets and liabilities		
Other current and non-current assets	(277)	(155)
Accounts payable and other liabilities	(1,179)	319
Interest receivable	-	(340)
Impairment of oil and gas properties	912	
Net cash provided by (used) in operating activities	268	326
Cash flows from investing activities		
Investment in oil and gas properties	(79)	(349)
Fixed asset additions	(71)	(25)
Net cash provided by (used in) investing activities	(150)	(374)
Cash flows from financing activities		
Proceeds from loans	42	-
Payment on notes payable	(34)	(9)
Net cash provided by (used in) financing activities	8	(9)
Net increase (decrease) in cash and cash equivalents	126	(57)
Cash and cash equivalents at beginning of year	109	59
Cash and cash equivalents at end of year	\$ 235	\$ 2

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, 2011. Operating results for the nine month period ended September 30, 2012 are not necessarily indicative of the results that may be expected for any subsequent quarter or for the fiscal year ending December 31, 2012.

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.

The Company also leases and operates a retirement community in King City Oregon, with a capacity of 114 residents.

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, 2011.

NOTE D: OIL AND GAS

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 entering into an agreement to fix the price it receives for the sale of its gas. For the five years ended April 2017 the Company will receive \$4.53 per MCF. While the lock-in price is higher than the current market price for natural gas when applying the new price using the formula mandated by the accounting rules the result was a reduction of \$912,000 in value of the Company’s recorded interests in its oil and gas properties. This reduction in value has been reflected in financial statements of the company in the first quarter of 2012.

The company records a liability for the eventual cost of shutting in its wells when they are determined to be permanently non productive. During the third quarter of 2012 the Company re-evaluated its method of plugging abandoned wells and determined by doing so in-house it could lower the cost. Based upon the Company's current calculations we have established a sufficient reserve, for accounting purposes, to plug the existing wells when necessary.

NOTE E – RECEIVABLES – PAYABLES – RELATED PARTIES

Prime Income Asset Management, Inc (“PIAMI”) is a real estate management company that also invests in real estate for its own account. PIAMI is indirectly owned by a private trust. The Company had various involvement with PIAMI and its affiliates over the past 7 years and therefore treated PIAMI as a related party.

Beginning in 2006 the Company made loans to PIAMI and its affiliates at interest rates higher than the Company believes it could have obtained elsewhere. By May of 2008 the loans plus accrued interest amounted to approximately \$21 million. As of the end of 2011 the loans (which were consolidated into a single loan in 2009) plus accrued interest amounted to approximately \$10.3 million. In the fourth quarter of 2011 the Company determined that the financial condition of PIAMI had deteriorated and there could be no assurance that the amount owed would or could be collected. The company recorded a reserve of \$10.3 million for the PIAMI loan and reduced the value of the receivable to zero.

Beginning in 2011 the Company conducted business with Pillar Income Asset Management (“Pillar”) whereby Pillar would provide the Company with services including processing payroll, acquiring insurance etc. The Company believes that by purchasing these services through certain large entities it can get lower costs and better service. In addition Pillar loaned the Company \$225,000 which was used to settle a lawsuit.

While separate companies both PIAMI and Pillar are both owned by Reality Advisors, Inc. (“RAI”). During 2011 and 2012 the Company incurred obligations to Pillar totaling approximately \$1.7 million. In a joint agreement among Pillar, PIAMI and the Company Pillar agreed to relieve the Company of its obligation to pay the \$1.7 million and the Company agreed to reduce the amount owed by Prime by a like amount. In the third quarter of 2012 the Company recorded a \$1.7 million gain on the transaction.

Further in a separate agreement among RAI, PIAMI and the Company, RAI has agreed to be obligated to the Company for \$1,250,000 and the Company has agreed to further reduce its receivable from PIAMI by a like amount to the extent such receivable is ultimately paid. While the company believes the likelihood of collecting an obligation from RAI is greater than from PIAMI the Company will not record a recover of the bad debt allowance until the receivable from RAI is collected. The Company will continue to attempt to collect the balance of the receivable due from PIAMI however there is no assurance that further collections will occur.

NOTE F: 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 the Company (which was then known as CabelTel International Corporation) 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 a drop of 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 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 tortious-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.

All of the defendants, including the Company, have filed Petitions for Review of the Court of Appeals Decision with the Supreme Court of the State of Texas. The Company vigorously denies that it is the “alter ego” of any other entity; further the Company strongly believes that the Court of Appeals opinion is erroneous in concluding that the Company is an “alter ego” of any other entity which is contrary to Nevada substantive law. There are also questions regarding the underlying liability of EurEnergy and if Eurenergy is successful in its petition for review or, even if unsuccessful if the Company is successful on its positions described above, the Trial Court’s judgment could be reinstated and the Company would have no liability on this claim.

Chesapeake Exploration Limited Partnership and Chesapeake Operating, Inc. (“Chesapeake”) In January 2006, the Company entered into a joint operating agreement evidencing its acquisition of a 5% interest in two gas wells being drilled and ultimately operated by Chesapeake. The Company relied on the cost projections provided by Chesapeake to make its investment decision. Subsequent to its investment, the Company received an invoice from Chesapeake for \$556,217 which, according to Chesapeake, represents the Company’s 5% share of additional costs incurred by Chesapeake in drilling the wells. The Company believes that these additional costs far exceed any reasonable expense that should have been incurred in drilling the two wells and were incurred without notifying the Company of such expenses. The Company has requested an accounting of the additional expenses and a reconciliation of the final costs to the cost estimates previously presented. In April 2007, Chesapeake filed a lawsuit against the Company and others in District Court of Tarrant County, Texas.

In March 2011, Chesapeake received a summary judgment award for \$686,874 plus legal fees. The Company has appealed the judge’s ruling. The Company is vigorously pursuing its legal options however the Company has also recorded its potential obligation should Chesapeake prevail.

The wells in question are producing natural gas to which the Company is entitled to its pro rata share. Chesapeake is withholding the amounts due the company until the legal matter is resolved. As of September 30, 2012 the Company has recorded a liability due Chesapeake of \$491,000.

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 G: OPERATING SEGMENTS

The following table reconciles the segment information to the corresponding amounts in the Consolidated Statements of Operations and total assets:

Nine months ended September 30, 2012	Oil and Gas Operations	Retirement Facility	Corporate	Total
Operating revenue	\$889	\$2,039	\$-	\$2,928
Operating expenses	850	1,040	402	2,292
Depreciation, Depletion and Amortization	506	38	-	544
Lease Expense	-	693	-	693
Accretion of Asset Retirement Obligation	68	-	-	68
Impairment of Natural Gas and Oil Properties	912			912
Total Operating Expenses	2,336	1,771	402	4,509

Edgar Filing: New Concept Energy, Inc. - Form 10-Q

Interest expense	(170)	-	-	(170)
Other income	-	-	-	1,835	1,835	
Segment operating income	\$(1,617)	\$268	\$1,433	\$84	

9

Nine months ended September 30, 2011	Oil and Gas Operations	Retirement Facility	Corporate	Total
Operating revenue	\$873	\$2,152	\$-	\$3,025
Operating expenses	780	1,119	351	2,250
Depreciation, Depletion and Amortization	245	32	-	277
Lease Expense	-	576	-	576
Accretion of Asset Retirement Obligation	96	-	-	96
Total Operating Expenses	1,121	1,727	351	3,199
Interest expense	(93)	-	-	(93)
Other income	2	-	11	13
Interest income	-	-	360	360
Segment operating income	\$(339)	\$425	\$20	\$106

NOTE H: 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 I: SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 14, 2012, 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, 2012, 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, 2012, the Company had current assets of \$417,000 and current liabilities of \$352,000.

Cash and cash equivalents at September 30, 2012 were \$235,000 as compared to \$109,000 at December 31, 2011.

Net cash provided from operating activities was \$268,000 for the nine months ended September 30, 2012. During the nine-month period, the Company had net income of \$84,000. Included in net income was a \$1.7 million recovery of a previously reserved receivable and an impairment loss of \$912,000 to reflect a reduction in the accounting value of the Company's oil and gas reserves. Also included in operating activities were non cash expenses including depreciation, depletion and amortization of \$570,000 and reserves for future retirement of debt obligations of \$158,000.

Net cash used in investing activities was \$150,000 for the nine months ended September 30, 2012, consisting of \$79,000 for the purchase of equipment and other capitalized drilling costs at the Company's oil and gas production facility and \$71,000 for the purchase of furniture and equipment at the Company's retirement facility.

Net cash provided in financing activities was \$8,000 for the nine months ended September 30, 2012, consisting of a net increase in loans from a bank.

Results of Operations

The following discussion is based on our Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011 as included in Part 1, Item 1: Financial statements of this report.

Comparison of the three months ended September 30, 2012 to the same period ended 2011

The Company reported net income of \$1,520,000 for the three months ended September 30, 2012, as compared to a net loss of \$57,000 for the similar period in 2011.

For the three months ended September 30, 2012, the Company recorded oil and gas revenues of \$274,000 as compared to \$313,000 for the comparable period of 2011. The changes in oil & gas revenue was due to a decrease of

approximately \$40,000 due to lower prices being received for the sale of our natural gas.

The Company recorded revenues of \$702,000 for the three months ended September 30, 2012 from its retirement property compared to \$690,000 for the comparable period in 2011. Occupancy decreased from 91% in 2011 to 85% during the same period in 2012. The decrease was offset by an increase in the rates charged at the facility.

For the three months ended September 30, 2012, the Company recorded oil and gas operating expenses of \$432,000 as compared to \$325,000 for the comparable period of 2011. The increase was principally due to an increase in depletion expense. The marked decrease in the market price being paid for natural gas resulted in a modification in the valuation the company placed on its gas reserves which impacted the anticipated production life of its wells. This led to an acceleration of the depletion expense being recorded.

For the three months ended September 30, 2012, operating expenses and lease expense at the retirement property were \$590,000 as compared to \$632,000 for the comparable period in 2011. The increase was due to an increase in the lease rate the company pays for the right to operate the facility.

For the three months ended September 30, 2012, corporate general & administrative expenses were \$108,000 as compared to \$101,000 for the comparable periods in 2011.

For the three months ended September 30, 2012, accretion of asset retirement obligations were \$0 as compared to \$32,000 for the comparable periods in 2011. During the third quarter of 2012 the Company re-evaluated its method of plugging abandoned wells and determined by doing so in-house it could lower the cost. Based upon the Company's current calculations we have established a sufficient reserve, for accounting purposes, to plug the existing wells when necessary.

For the three months ended September 30, 2012, interest income was \$0 as compared to \$121,000 for the comparable period in 2011. In December 2011 the Company became concerned about the collectability of a certain note receivable and determined that the note and any accrued interest be fully reserved. The company continues to accrue interest but provides a full reserve should it be unable to collect.

For the three months ended September 30, 2012 the Company recorded interest expense of \$52,000 as compared to \$31,000 for the comparable periods in 2011. The increase is due to additional interest due on financing obtained in late 2011. The proceeds were used to drill wells.

For the three months ended September 30, 2012 the Company recorded other income of \$1,726,000 as compared to a loss of \$60,000 for the comparable period in 2011. In 2012 the Company recorded a \$1,700,000 gain from the recovery of a previously reserved note receivable. See Footnote E for a more detailed description of the recovery.

Comparison of the nine months ended September 30, 2012 to the same period ended 2011

The Company reported net income of \$84,000 for nine months ended September 30, 2012, as compared to net income of \$106,000 for the similar period in 2011.

For the nine months ended September 30, 2012, the Company recorded oil and gas revenues of \$889,000 as compared to \$873,000 for the comparable period of 2011. The changes in oil & gas revenue was due to an increase of approximately \$241,000 due to new oil wells that were drilled during 2011 and a decrease of approximately \$225,000 due to lower prices being received for the sale of our natural gas.

The Company recorded revenues of \$2,039,000 for the nine months ended September 30, 2012 from its retirement property compared to \$2,152,000 for the comparable period in 2011. Occupancy decreased from 91% in 2011 to 85% during the same period in 2012. The decrease was offset by an increase in the rates charged at the facility.

For the nine months ended September 30, 2012, the Company recorded oil and gas operating expenses of \$1,356,000 as compared to \$1,025,000 for the comparable period of 2011. The increase was principally due to an increase in depletion expense. The marked decrease in the market price being paid for natural gas resulted in a modification in the valuation the company placed on its gas reserves which impacted the anticipated production life of its wells. This led to an acceleration of the depletion expense being recorded.

For the nine months ended September 30, 2012, operating expenses and lease expense at the retirement property were \$1,771,000 as compared to \$1,727,000 for the comparable period in 2011. The increase was principally due to an increase in the lease rate the company pays for the right to operate the facility.

For the nine months ended September 30, 2012, corporate general & administrative expenses were \$402,000 as compared to \$351,000 for the comparable periods in 2011. The increase is primarily due to legal fees incurred by the company to defend itself against certain lawsuits.

For the nine months ended September 30, 2012, interest income was \$0 as compared to \$360,000 for the comparable period in 2011. In December 2011 the Company became concerned about the collectability of a certain note receivable and determined that the note and any accrued interest be fully reserved. The company continues to accrue interest but provides a full reserve should it be unable to collect.

For the nine months ended September 30, 2012 the Company recorded interest expense of \$170,000 as compared to \$93,000 for the comparable periods in 2011. The increase is due to additional interest due on financing obtained in late 2011. The proceeds were used to drill wells.

The Company recorded other income of \$1,835,000 for the nine months ended September 30, 2012. In the third quarter of 2012 the Company recorded a \$1,700,000 gain from the recovery of a previously reserved note receivable. See Footnote E for a more detailed description of the recovery.

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 affect 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

None.

14

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)

Edgar Filing: New Concept Energy, Inc. - Form 10-Q

- 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: November 14, 2012

By: /s/ Gene Bertcher
Gene S. Bertcher, Principal
Executive
Officer, President and Chief
Financial
Officer

