

New Concept Energy, Inc.  
Form 10-Q  
November 13, 2009

**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, 2009**

**or**

**o 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.)**

**1755 Wittington Place, Suite 340**  
**Dallas, Texas**  
**(Address of principal executive offices)**

**75234**  
**(Zip Code)**

**(972) 407-8400**  
**(Registrant's telephone number, including area code)**

**(Former name, former address and former fiscal year, if**  
**changed since last report)**

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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: R 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

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

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 2, 2009)**

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## NEW CONCEPT ENERGY, INC. AND SUBSIDIARIES

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Period ended September 30, 2009

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## PART I: FINANCIAL INFORMATION

**Item 1. Financial Statements****New Concept Energy, Inc. and Subsidiaries**CONSOLIDATED BALANCE SHEETS  
(amounts in thousands, except share amounts)

| Assets  | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008 |
|---|--------------------------------------|----------------------|
| <b>Current assets</b>   |                                      |                      |
| Cash and cash equivalents   | \$ 111                               | \$ 190               |
| Accounts receivable – trade   | 180                                  | 353                  |
| Note and interest receivable – related party                          | 11,170                               | 10,632               |
| Other current assets (including \$189 from related parties in (2008)) | 743                                  | 527                  |
| <b>Total current assets</b>   | <b>12,204</b>                        | <b>11,702</b>        |
| <b>Oil and natural gas properties (full cost accounting method):</b>  |                                      |                      |
| Proved developed and undeveloped oil and gas properties               | 10,795                               | 10,688               |
| <b>Property and equipment, net of depreciation</b>                    |                                      |                      |
| Land, buildings and equipment - oil and gas operations                | 1,363                                | 1,291                |
| Other   | 137                                  | 149                  |
| <b>Total property and equipment</b>                                   | <b>1,500</b>                         | <b>1,440</b>         |
| <b>Other assets</b>   | <b>229</b>                           | <b>228</b>           |
| <b>Total Assets</b>   | <b>\$ 24,728</b>                     | <b>\$ 24,058</b>     |

The accompanying notes are an integral part of these Consolidated Financial Statements.

**New Concept Energy, Inc. and Subsidiaries**CONSOLIDATED BALANCE SHEETS - CONTINUED  
(amounts in thousands, except share amounts)

| Liabilities And Stockholders' Equity  | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008 |
|---|--------------------------------------|----------------------|
| <b>Current liabilities</b>  |                                      |                      |
| Accounts payable – trade  | \$ 220                               | \$ 202               |
| Accrued expenses  | 2,524                                | 1,944                |
| <b>Total current liabilities</b>  | <b>2,744</b>                         | <b>2,146</b>         |
| <b>Long-term debt</b>   | <b>1,171</b>                         | <b>1,026</b>         |
| <b>Other long-term liabilities</b>  | <b>333</b>                           | <b>394</b>           |
| <b>Total liabilities</b>  | <b>4,248</b>                         | <b>3,566</b>         |
| <b>Stockholders' equity</b>   |                                      |                      |
| Preferred stock, Series B   | 1                                    | 1                    |
| Common stock, \$.01 par value; authorized, 100,000,000<br>shares; issued and outstanding, 1,946,935 shares at<br>September 30, 2009 and December 31, 2008 | 20                                   | 20                   |
| Additional paid-in capital  | 58,838                               | 58,838               |
| Accumulated deficit   | (38,379)                             | (38,367)             |
|   | 20,480                               | 20,492               |
| <b>Total Liabilities &amp; Equity</b>   | <b>\$ 24,728</b>                     | <b>\$ 24,058</b>     |

The accompanying notes are an integral part of these Consolidated Financial Statements.

**New Concept Energy, Inc. and Subsidiaries**

**Consolidated Statements of Operations**

*(amounts in thousands, except per share data)*

(Unaudited)

|   | For The Three Month<br>Period Ended<br>September 30, |               | For The Nine Month<br>Period Ended<br>September 30, |                  |
|---|--|---------------|---|------------------|
|   | 2009   | 2008          | 2009  | 2008             |
| <b>Revenue</b>  |  |               |   |                  |
| Oil and gas operations, net of royalties  | \$ 285   | \$ 154        | \$ 966  | \$ 154           |
| Real estate operations  | 685  | 704           | 2,121   | 2,107            |
|   | 970  | 858           | 3,087   | 2,261            |
| <b>Operating expenses</b>   |  |               |   |                  |
| Oil and gas operations  | 329  | 70            | 1,086   | 70               |
| Real estate operations  | 293  | 338           | 1,016   | 966              |
| Lease expense   | 242  | 244           | 719   | 717              |
| Corporate general and administrative  | 169  | 108           | 666   | 633              |
|   | 1,033  | 760           | 3,487   | 2,386            |
| <b>Operating income (loss)</b>  | <b>(63)</b>  | <b>98</b>     | <b>(400)</b>  | <b>(125)</b>     |
| <b>Other income (expense)</b>   |  |               |   |                  |
| Interest income   | 138  | 479           | 432   | 729              |
| Interest expense  | (31)   | --            | (92)  | (230)            |
| Gain on sale of leasehold interest  | --   | --            | --  | 16,440           |
| Other income  | 5  | 45            | 48  | 457              |
|   | 112  | 524           | 388   | 17,396           |
| <b>Net income (loss) from continuing operations</b>   | <b>49</b>  | <b>622</b>    | <b>(12)</b>   | <b>17,271</b>    |
| Provision for income taxes  | --   | 140           | --  | 1,766            |
| <b>Net income (loss) applicable to common shares</b>  | <b>\$ 49</b>   | <b>\$ 482</b> | <b>\$ (12)</b>                                      | <b>\$ 15,505</b> |
| <b>Net earnings (loss) per common share –<br/>basic and diluted</b>                         |  |               |   |                  |
|   | \$ 0.03  | \$ 0.25       | \$ (0.01)   | \$ 8.93          |
| <b>Weighted average of common and equivalent shares<br/>outstanding – basic and diluted</b> |  |               |   |                  |
|   | 1,947  | 1,937         | 1,947   | 1,736            |

The accompanying notes are an integral part of these Consolidated Financial Statements.



## New Concept Energy, Inc. and Subsidiaries

## Consolidated Statements of CASH FLOWS

*(amounts in thousands)*

|  | For the Nine Month<br>Period Ended September 30, |             |
|--|--|-------------|
|  | 2009   | 2008        |
|  | (Unaudited)                                      | (Unaudited) |
| <b>Cash flows from operating activities</b>  |  |             |
| Net earnings from continuing operations  | \$ (12)  | \$ 15,505   |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: |  |             |
| Depreciation, depletion and amortization   | 281  | 43          |
| Gain on sale of mineral interests  | --   | (16,440)    |
| Change in deferred taxes   | --   | 250         |
| Changes in operating assets and liabilities:   |  |             |
| Interest receivable  | (260)  | 83          |
| Other current and non-current assets   | (44)   | (637)       |
| Income taxes payable   | --   | 1,516       |
| Accounts payable and other liabilities   | 537  | 1,482       |
| Interest payable   | 87   | --          |
| Current maturities of long-term debt   | --   | 90          |
| Net cash provided by operating activities  | 589  | 1,892       |
| <b>Cash flows provided by (used in) investing activities</b>                               |  |             |
| Proceeds from sale of mineral rights   | --   | 23,288      |
| Loans to affiliates  | (278)  | (19,232)    |
| Loans to affiliates - repayment  | --   | 10,540      |
| Investment in oil and gas operations   | (327)  | (11,154)    |
| Fixed asset additions  | (121)  | (1,316)     |
| Assets held for sale   | --   | (600)       |
| Net cash provided by (used in) investing activities  | (726)  | 1,526       |
| <b>Cash flows provided by (used in) financing activities</b>                               |  |             |
| Proceeds from sale of common stock   | --   | 2,831       |
| Payment of notes payable   | --   | (6,921)     |
| Debt created for the CESI acquisition  | --   | 1,177       |
| Proceeds from notes payable  | 58   | --          |
| Net cash provided by (used in) financing activities  | 58   | (2,913)     |
| Net increase (decrease) in cash and cash equivalents                                       | (79)   | 505         |
| Cash and cash equivalents at beginning of period   | 190  | 172         |
| Cash and cash equivalents at end of period   | \$ 111   | \$ 677      |

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. Certain 2008 balances have been reclassified to conform to the 2009 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, 2008. Operating results for the three and nine month periods ended September 30, 2009 are not necessarily indicative of the results that may be expected for any subsequent quarter or for the fiscal year ending December 31, 2009.**

**NOTE B: NATURE OF OPERATIONS**

The Company operates oil and gas wells and holds 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.

NCE 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, 2008.

**Note D: Short Term Notes Receivable – Related Party**

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In July 2006, the Company made an unsecured \$1.4 million loan to Eurenergy Resources Corporation (“Eurenergy”), a related party. The loan had an annual interest rate of 8% with principal and interest payable within 30 days after demand, and if not sooner demanded, on July 17, 2007. Effective July 17, 2007 the existing accrued interest was added to the principal balance, which increased the principal balance to \$1,487,160, and the maturity date was extended to July 17, 2009. All other terms of the note remained the same. At May 21, 2009 the balance due including accrued interest totaled \$1,798,456.

In June of 2008 the Company entered into a letter of credit agreement with Eurenergy. The terms of the agreement call for interest at the prime rate plus two percent. At May 21, 2009 the balance of the note and accrued interest was \$2,172,441.

On November 20, 2007 the Company made a \$630,000 loan to Prime Income Asset Management, Inc. ("PIAMI"). In 2008 the Company made additional net advances on the loan totaling approximately \$6.3 million. The initial loan and the additional advances have been combined into a new loan with interest at the prime rate plus two percent.

On May 21, 2009 PIAMI acquired both Eurenergy notes receivable at face value plus accrued interest totaling \$3,970,897. At September 30, 2009 the balance due including accrued interest on the note receivable from PIAMI was \$10,775,752.

In November 2007 the Company entered into an agreement with Eurenergy to provide accounting and administrative services at \$15,000 per month. As of September 30, 2009 Eurenergy owes the Company \$165,000 for such services. In June 2009 the agreement with Eurenergy expired. The Company entered into a similar agreement with Energy Advisors, LLC in July 2009. As of September 30, 2009 Energy Advisors owes the Company \$45,000 for accounting and administrative services.

#### **NOTE E – CONTINGENCIES**

##### 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 five percent 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 State District Court in Tarrant County, Texas.

##### 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 – OPERATING SEGMENTS**

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

| <u>Nine months ended September 30, 2009</u> | Oil and Gas<br>Operations | Retirement<br>Facility | Corporate | Total    |
|---|---------------------------|------------------------|-----------|----------|
| Operating revenue                           | \$ 966                    | \$ 2,121               | \$ --     | \$ 3,087 |
| Operating expenses                          | 846                       | 1,996                  | 363       | 3,205    |
| Depreciation and amortization               | 20                        | 42                     | --        | 62       |
| Depletion                                   | 220                       | --                     | --        | 220      |
| Total Operating Expenses                    | 1,086                     | 2,038                  | 363       | 3,487    |
| Interest expense                            | 92                        | --                     | --        | 92       |
| Other income                                | 10                        | --                     | 38        | 48       |
| Interest income                             | --                        | --                     | 432       | 432      |
| Segment operating income                    | \$ (202)                  | \$ 83                  | \$ 107    | \$ (12)  |

**NOTE G – RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update No. 2009-01 (“ASU No. 2009-01”) was issued to amend topic Accounting Standard Codification 105 (“ASC 105”) “Generally Accepted Accounting Principles” an amendment based on Statement of Financial Accounting Standard No. 168 “the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles”. This amendment establishes the “FASB Accounting Standards Codification” (“Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification is effective for interim and annual periods ending on or after September 15, 2009.

In December 2007, the FASB issued SFAS No. 141-R now referred to as ASC 805 “Business Combinations”. The statement improves the reporting of information about a business combination and its effects. The statement establishes principles and requirements for how the acquirer will recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquisition. Also, the statement determines the recognition and measurement of goodwill acquired in the business combination or a gain from a bargain purchase, and finally, determines the disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company has adopted this pronouncement on January 1, 2009 and will apply its requirements to future business combinations.

In April 2009, the FASB issued FSP FAS No. 157-4 now referred to as ASC 820 “Fair Value Measurements and Disclosures”, which provides additional guidance for applying the provisions that define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. It requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has been a

change, transactions or quoted prices may not be indicative of fair value and a significant adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. It was applied prospectively for interim periods ending after June 15, 2009.

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In April 2009, the FASB issued FSP FAS No 107-1 and Accounting Principles Board (APB) No. 28-1 now referred to as ASC 825-10-50 "Disclosure about Fair Value of Financial Instruments". It required disclosures about fair value of financial instruments in interim financial statements, in addition to the annual financial statements as already required and will be required for interim periods ending after June 15, 2009. The application of this standard will not have a material impact on our financial statements.

In May 2009, the FASB issued SFAS No. 165 now referred to as ASC 855 "Subsequent Events", which establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. It was applied prospectively for interim periods ending after June 15, 2009.

In June 2009, the FASB issued SFAS No. 166 "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140", to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows and a transferor's continuing involvement, if any, in transferred financial assets. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Additionally, on and after the effective date, the concept of a qualified special-purpose entity is no longer relevant for accounting purposes.

In June 2009, the FASB issued SFAS No. 167 "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"), which modifies the approach to determining the primary beneficiary of a variable interest entity ("VIE") and requires companies to more frequently assess whether they must consolidate a VIE. The statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009.

On December 31, 2008, the SEC issued Release No. 33-8995, amending its oil and natural gas reporting requirements for oil and natural gas producing companies. The effective date of the new accounting and disclosure requirements is for annual reports filed for fiscal years ending on or after December 31, 2009. Companies are not permitted to comply at an earlier date. Among other things, Release No. 33-8995:

- Revises a number of definitions relating to oil and natural gas reserves to make them consistent with the Petroleum Resource Management System, which includes certain non-traditional resources in proved reserves;
- Permits the use of new technologies for determining oil and natural gas reserves;
- Requires the use of average prices for the trailing twelve-month period in the estimation of oil and natural gas reserve quantities and, for companies using the full cost method of accounting, in computing the ceiling limitation test, in place of a single day price as of the end of the fiscal year;

- Permits the disclosure in filings with the SEC of probable and possible reserves and sensitivity of our proved oil and natural gas reserves to changes in prices;
- Requires additional disclosures (outside of the financial statements) regarding the status of undeveloped reserves and changes in status of these from period to period; and
- Requires a discussion of the internal controls in place in the reserve estimation process and disclosure of the technical qualifications of the technical person having primary responsibility for preparing the reserve estimates.

We are currently evaluating the effect of adopting the final rule on our financial statements and oil and natural gas reserve estimates and disclosures.

## **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**

Oil and gas exploration and production companies may elect to account for their property costs using either the "successful efforts" or "full cost" accounting method. Under the successful efforts method, unsuccessful exploratory well costs, as well as all exploratory geological and geophysical costs, are expensed. Under the full cost method, all exploration costs are capitalized, regardless of success. Selection of the oil and gas accounting method can have a significant impact on a Company's financial results. We use the full cost method of accounting and generally pursue acquisitions and development of proved reserves as opposed to exploration activities. Once we incur costs, they are recorded in the depletable pool of proved properties or in unproved properties, collectively, the full cost pool.



We evaluate possible impairment of producing properties when conditions indicate that the properties may be impaired. Such conditions include a significant decline in product prices which we believe to be other than temporary or a significant downward revision in estimated proved reserves for a field or area. An impairment provision must be recorded to adjust the net book value of the property to its estimated fair value if the net book value exceeds management's estimate of future net cash flows from the property. The estimated fair value of the property is generally calculated as the discounted present value of future net cash flows. Our estimates of cash flows are based on the latest available proved reserve and production information and management's estimates of future product prices and costs, based on available information such as forward strip prices and industry forecasts and analysis.

The impairment assessment process is primarily dependent upon the estimate of proved reserves. Any overstatement of estimated proved reserve quantities would result in an overstatement of estimated future net cash flows, which could result in an understated assessment of impairment. The subjectivity and risks associated with estimating proved reserves are discussed under "Oil and Gas Reserves" below. Prediction of product prices is subjective since prices are largely dependent upon supply and demand resulting from global and national conditions generally beyond our control. However, management's assessment of product prices for purposes of impairment is consistent with that used in its business plans and investment decisions. We believe that a sensitivity analysis regarding the effect of changes in assumptions on estimated impairment is impracticable to provide because of the number of assumptions and variables involved which have interdependent effects on the potential outcome.

### **Oil and Gas Reserves**

Our proved oil and gas reserves are estimated by independent petroleum engineers. Reserve engineering is a subjective process that is dependent upon the quality of available data and the interpretation thereof, including evaluations and extrapolations of well flow rates and reservoir pressure. Estimates by different engineers often vary, sometimes significantly. In addition, physical factors such as the results of drilling, testing and production subsequent to the date of an estimate, as well as economic factors such as changes in product prices, may justify revision of such estimates. Because proved reserves are required to be estimated using prices at the date of the evaluation, estimated reserve quantities can be significantly impacted by changes in product prices.

Proved reserves, as defined by the Financial Accounting Standards Board (FASB) and adopted by the Securities and Exchange Commission, are limited to reservoir areas that indicate economic productibility through actual production or conclusive formation tests, and generally cannot extend beyond the immediately adjoining undrilled portion. Although improved technology often can identify possible or probable reserves other than by drilling, under current SEC rules, these reserves cannot be estimated and disclosed.

Depreciation, depletion and amortization (DD&A) of producing properties are computed on the unit-of-production method based on estimated proved oil and gas reserves. While total DD&A expense for the life of a property is limited to the property's total cost, proved reserve revisions result in a change in timing of when DD&A expense is recognized. Downward revisions of proved reserves result in an acceleration of DD&A expense, while upward revisions tend to lower the rate of DD&A expense recognition.

The standardized measure of discounted future net cash flows and changes in such cash flows are prepared using assumptions required by the FASB and the SEC. Such assumptions include using year-end oil and gas prices and year-end costs for estimated future development and production expenditures. Discounted future net cash flows are calculated using a ten percent rate. Changes in any

of these assumptions could have a significant impact on the standardized measure.

### **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, 2009 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 one hundred percent valuation allowance was established.

## Liquidity and Capital Resources

At September 30, 2009, the Company had current assets of \$12.2 million and current liabilities of \$2.8 million.

Cash and cash equivalents at September 30, 2009 were \$111,000 as compared to \$190,000 at December 31, 2008.

Net cash provided by operating activities was \$589,000 for the nine months ended September 30, 2009. During the nine-month period, the Company had a net loss of \$12,000.

Net cash used in investing activities was \$726,000 for the nine months ended September 30, 2009, consisting of loans to affiliated entities, investments in potential oil and gas operations and the purchase of equipment and other capitalized drilling costs at the Company's oil and gas production facility.

## Results of Operations

The Company reported net income of \$49,000 and a net loss of \$12,000 for the three and nine months ended September 30, 2009, as compared to net income of \$482,000 and \$15.5 million for the comparable periods of 2008.

For the three and nine months ended September 30, 2009, the Company recorded oil and gas revenues of \$285,000 and \$966,000. The oil and gas operations were acquired in the third quarter of 2008. Therefore, period to period comparisons are irrelevant. During the same periods in 2009, the Company recorded revenues of \$685,000 and \$2.1 million from its retirement property compared to \$704,000 and \$2.1 million for the comparable periods in 2008.

For the three and nine months ended September 30, 2009, the Company recorded oil and gas operating expenses of \$329,000 and \$1.1 million. The oil and gas operations were acquired in the third quarter of 2008. Therefore, period to period comparisons are irrelevant. During the same periods in 2009, operating expenses and lease expense at the retirement property were \$535,000 and \$1.7 million as compared to \$582,000 and \$1.7 million for the comparable periods in 2008.

For the three and nine months ended September 30, 2009, corporate general & administrative expenses were \$169,000 and \$666,000 as compared to \$108,000 and \$633,000 for the comparable periods in 2008. The increase is primarily due to increased legal and professional fees.

For the three and nine months ended September 30, 2009, interest income was \$138,000 and \$432,000 as compared to \$479,000 and \$729,000 for the comparable periods in 2008. The decrease is primarily due to decreases in the prime lending rate from 2008 to 2009 and the decreased receivable on which interest is computed over the comparable periods.

The Company recorded interest expense for the three and nine months ended September 30, 2009, of \$31,000 and \$92,000 as compared to \$-0- and \$230,000 for the comparable periods in 2008. The decrease is primarily due to the payoff of interest bearing debt during the second quarter of 2008, as well as reduced interest rates on notes payable from 2008 to 2009.

Other income was \$5,000 and \$48,000 for the three and nine months ended September 30, 2009, as compared to \$45,000 and \$457,000 for the comparable periods in 2008. In 2008, the income was due to the collection of back interest from a mortgage bond receivable due to the sale of a property in August 2001. Because the mortgage bond was payable based on cash flow and profit of the property, the uncollected interest was not recorded until collected.

### **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**

The Company's management, including the principal executive officer, chief financial officer and principal accounting officer, conducted an evaluation as of the end of the period covered by this Report, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the chief executive officer and the chief financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Report. The Company's management, including the chief executive officer, chief financial officer and principal accounting officer, also conducted an evaluation of the Company's internal controls over financial reporting to determine whether any changes occurred in the first fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the first fiscal quarter.

It should be noted that any system of controls, however well designed and operated, can only provide reasonable and not absolute assurance that the objectives of the system will be met. In addition, the design of any control system is based, in part, on certain assumptions about the likelihood of future events.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2009 that have materially affected, or are reasonably likely to affect the Company's internal controls over financial reporting.

**PART II: OTHER INFORMATION**

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

None

**Item 6. Exhibits**

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

| <b>Exhibit Designation</b> | <b>Exhibit Description</b>  |
|----------------------------|---|
| 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) |

| <b>Exhibit Designation</b> | <b>Exhibit Description</b>   |
|----------------------------|--|
| 31.0                       | 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) |
| 31.1                       | 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)                                       |
| 31.2                       | 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)  |
| 31.3                       | 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  |

\*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 13, 2009

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

