

New Concept Energy, Inc.
Form 10-K
April 01, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 5(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the Year ended December 31, 2018
OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 000-08187

NEW CONCEPT ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada **75-2399477**

(State or other jurisdiction of

(IRS Employer Identification Number)

Incorporation or organization)

1603 LBJ Freeway, Suite 750

Dallas, Texas **75234**

(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number including area code (972) 407-8400

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, \$0.01 par value	NYSE American

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** [] **No** [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes** [] **No** [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** [X] **No** []

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) **Yes** [X] **No** []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). **Yes** [] **No** [X]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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 X

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing price at which the common equity was last sold which was the sales

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

price of the Common Stock on the NYSE American as of June 30, 2018 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$8,216,000 based upon a total of 1,946,935 shares held as of June 30, 2018 by persons believed to be non-affiliates of the Registrant. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value.

As of March 29, 2019 there were 5,131,934 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

NEW CONCEPT ENERGY, INC.

Index to Annual Report on Form 10-K

Fiscal year ended December 31, 2018

Forward-Looking Statements	3
PART I	3
<u>Item 1. Business</u>	3
<u>Item 1A. Risk Factors</u>	5
<u>Item 1B. Unresolved Staff Comments</u>	5
<u>Item 2. Properties</u>	5
<u>Item 3. Legal Proceedings</u>	8
<u>Item 4. Mine Safety Disclosures</u>	8
PART II	8
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	8
<u>Item 6. Selected Financial Data</u>	9
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation</u>	9
<u>Item 7a: Quantitative And Qualitative Disclosures About Market Risk</u>	12
<u>Item 8. Financial Statements</u>	12
<u>Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>	12
<u>Item 9a. Controls and Procedures</u>	12
<u>Item 9b. Other Information</u>	13
PART III	13
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	13
<u>Item 11. Executive Compensation</u>	15
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	17
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	18
<u>Item 14. Principal Accounting Fees and Services</u>	18
PART IV	20
<u>Item 15. Exhibits and Financial Statement Schedules</u>	20
<u>SIGNATURES</u>	40

NEW CONCEPT ENERGY, INC.

Forward-Looking Statements

Certain statements in this Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. The words “estimate”, “plan”, “intend”, “expect”, “anticipate”, “and believe” and similar expressions are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout this Report and in the documents incorporated herein by reference. New Concept Energy, Inc. disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our expectations are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Important factors that could cause our actual results to differ from estimates or projections contained in any forward-looking statements are described under Item 1A. Risk Factors beginning on page 5.

PART I

Item 1. Business

New Concept Energy, Inc. (“New Concept”, “NCE” or the “Company” or “we” or “us”) was incorporated in Nevada on May 31, 1991, under the name Medical Resource Companies of America, Inc. The Company is the successor-by-merger to Wespac Investors Trust, a California business trust that began operating in 1982. On March 26, 1996, the name was changed to Greenbriar Corporation. On February 8, 2005, the name of the Company was changed to CabelTel International Corporation. On May 21, 2008, the name of the company was changed to New Concept Energy, Inc.

Recent Stock Issuance; Change in Control

Following its Annual Meeting of Stockholders, held on October 10, 2018, and approval of such action by the stockholders and the NYSE American, the Company, on December 4, 2018, issued an additional 3,000,000 shares of Common Stock to Realty Advisors, Inc. (“**RAI**”) a related party, for cash of \$4,500,000 to increase stockholders’ equity by \$4,440,000 after issuance costs. The issuance of 3,000,000 shares of Common Stock resulted in a change in control of the Company, as RAI now owns approximately 59.6% of the outstanding Common Stock. As Gene S. Bertcher is an officer of the Company and of RAI, RAI is deemed to be an “Affiliate” (as defined in Rule 405 under the Securities Act of 1933, as amended). The issuance of the 3,000,000 shares of Common Stock to RAI increased the total number

of shares issued and outstanding to 5,131,935 shares. From the proceeds of sale of the Common Stock, \$4,000,000, were loaned to American Realty Investors, Inc., a Nevada corporation (“**ARL**”) a related party, which has its shares of Common Stock listed and traded on the NYSE on a short-term basis, maturing September 30, 2019, at an interest rate of 6% per annum, which interest rate is believed by management to be in excess of the amount and rate of interest that would be available from other sources. The Company anticipates utilizing such funds in the future for drilling expenses, acquisitions and working capital.

Oil and Gas Operations

The Company, through its wholly owned subsidiaries Mountaineer State Energy, Inc. and Mountaineer State Operations, LLC, owns and 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. The majority of our oil & gas operation was acquired through the acquisition of the Carl E. Smith Companies in 2008.

As of December 31, 2018 the Company has 153 producing wells, 44 non-producing wells and related equipment and mineral leases covering approximately 20,000 acres.

Business Strategy

The Company is a Nevada corporation which owns and operates oil and gas wells in Ohio and West Virginia.

The Company intends to continue to pursue acquisition of undervalued or distressed oil and gas related businesses, as well as additional acquisitions of oil and gas leases. The Company may choose to develop or resell the acquired acreage as management deems most beneficial to the Company. The Company’s strategy is dependent on available financing as well as the market price for oil and gas.

Insurance

The Company currently maintains property and liability insurance intended to cover claims in its oil and gas operations, retirement community and corporate operations. The provision of personal services entails an inherent risk of liability compared to more institutional long-term care communities. The Company also carries property insurance on each of its owned and leased properties, as appropriate.

Employees

At December 31, 2018, the Company employed the services of 6 people with the remainder of the work contracted to third parties. The Company believes it maintains good relationships with its employees. None of the Company's employees are represented by a collective bargaining group.

The Company's operations are subject to the Fair Labor Standards Act. Many of the Company's employees are paid at rates related to the minimum wage and any increase in the minimum wage will result in an increase in labor costs.

Management is not aware of any non-compliance by the Company as regards applicable regulatory requirements that would have a material adverse effect on the Company's financial condition or results of operations.

Quality Assurance

Energy Philosophy – The Company is committed to the preservation and enhancement of the environment in which we operate. We are philosophically and operationally focused to continually prioritize the sensitivity of our ecological system in which we develop resources for our generation as well as our children's. Management's legacy is to prove that the energy industry can develop the earth's natural resources with clean and efficient technologies while preserving its fragile beauty. Our technologies directly and significantly reduce the impact of our operations on nature and wildlife by minimizing surface disturbance.

Regular Property Inspections – Property inspections are conducted by corporate personnel. These inspections cover the appearance of the exterior and grounds, the appearance and cleanliness of the interior, the professionalism and friendliness of staff and notes on maintenance.

Marketing

The Company sells its oil and natural gas production to a limited number of purchasers. While there is an available market for crude oil and natural gas production, we cannot be assured that the loss of these purchasers would not have a material impact on the Company. Further a reduction in the market price for oil and gas will have a negative effect on the Company's financial position.

Government Regulation

Management is not aware of any non-compliance by the Company of applicable regulatory requirements that would have a material adverse effect on the Company's financial condition or results of operations.

Competition

The oil and natural gas industry is highly competitive. We encounter strong competition from other independent operators and from major oil companies in acquiring properties, contracting for drilling equipment and securing trained personnel. Many of these competitors have financial and technical resources and personnel substantially larger than ours. As a result, our competitors may be able to pay more for desirable leases, or to evaluate, bid for and purchase a greater number of properties or prospects than our financial or personnel resources will permit.

We are also affected by competition for drilling rigs and the availability of related equipment. In the past, the oil and natural gas industry has experienced shortages of drilling rigs, equipment, pipe and personnel, which has delayed development drilling and other exploitation activities and has caused significant price increases. We are unable to predict when, or if, such shortages may again occur or how they would affect our development and exploitation program.

Competition is also strong for attractive oil and natural gas producing properties, undeveloped leases and drilling rights, and we cannot assure you that we will be able to compete satisfactorily. Many large oil companies have been actively marketing some of their existing producing properties for sale to independent producers. We regularly evaluate acquisition opportunities and submit bids as part of our growth strategy.

Available Information

The Company maintains an internet website at www.newconceptenergy.com. The Company has available through the website, free of charge, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16 of the Securities Exchange Act of 1934 (the “Exchange Act”) and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. In addition, the Company has posted the charters for our Audit Committee, Compensation Committee and Governance and Nominating Committee, as well as our Code of Business Conduct and Ethics, Corporate Governance Guidelines on Director Independence and other information on the website. These charters and principles are not incorporated in this Report by reference. The Company will also provide a copy of these documents free of charge to stockholders upon request. The Company issues Annual Reports containing audited financial statements to its common stockholders.

Item 1A. Risk Factors

Risks Related to the Company

An investment in our securities involves various risks. An investor should carefully consider the following risk factors in conjunction with the other information in this report before trading our securities.

The oil & gas industry is highly competitive. Competition for leasehold interests, subcontractors and qualified employees are keen and we are competing against companies that are larger, more experienced and better capitalized than we are.

The oil & gas industry faces exposure from changes in oil and gas prices due to market fluctuations beyond the Company’s control.

Our governing documents contain anti-takeover provisions that may make it more difficult for a third party to acquire control of us. Our Articles of Incorporation contain provisions designed to discourage attempts to acquire control of the Company by a merger, tender offer, proxy contest or removal of incumbent management without the approval of our Board of Directors. As a result, a transaction which otherwise might appear to be in your best interests as a stockholder could be delayed, deferred or prevented altogether, and you may be deprived of an opportunity to receive a premium for your shares over prevailing market rates. The provisions contained in our Articles of Incorporation include:

the requirement of an 80% vote to make, adopt, alter, amend, change or repeal our Bylaws or certain key provisions of the Articles of Incorporation that embody, among other things, the anti-takeover provisions;

the so-called business combination “control act” requirements involving the Company and a person that beneficially owns 10% or more of the outstanding common stock except under certain circumstances; and

the requirement of holders of at least 80% of the outstanding Common Stock to join together to request a special meeting of stockholders.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company’s principal offices are located at 1603 LBJ Freeway Suite 750, Dallas, Texas 75234. The Company believes this space is presently suitable, fully utilized and will be adequate for the foreseeable future.

Oil and Gas

Reserve Estimation

The Company’s producing properties have been in production for over 20 years. Because individual well production volumes were not available, composite production decline curves were constructed for each of the five counties in

which these wells are located. All five composite decline curves exhibit well-established production decline trends. After reviewing

5

all available information, it was determined that the most reliable method of estimating the Proved Developed Producing Reserves was by extrapolation of the existing production decline trends to the economic limit of production.

Undeveloped Reserves were estimated by analogy to currently producing wells in the various areas producing from the same formations.

The Company's reserve reports are prepared by independent petroleum engineers. The process used to control the information provided to the independent petroleum engineers includes an initial compilation of production data by experienced senior management personal in the Company's field office. This data is independently reviewed by appropriate personal in the Company's corporate office prior to being submitted to the independent petroleum engineer. The submitted data is ultimately compared to the final reserve report and then agreed to the financial statement disclosures prepared by the Company.

The Company uses the petroleum engineering firm of Lee Keeling and Associates, Inc. to prepare its reserve estimates and future net revenues from its oil and gas properties. The work is performed by a registered professional engineer who is a member of the Society of Petroleum Engineers.

According to our independent reserve engineering firm, Lee Keeling & Associates, Inc. as of December 31, 2018, our Proved Reserves in Ohio and West Virginia were approximately 180,000 Mcf of natural gas and 27,541 Bbls of oil. In addition the Company has probable and possible reserves of 2,088,117 Mcf of natural gas. As of December 31, 2018, the related PV-10 of our total Reserves was approximately \$2.9 million from Ohio & West Virginia.

Additional Oil and Gas Information

Production

2018 – 130, 000 Mcf of natural gas and 4, 200 Bbls of oil

2017 – 178, 000 Mcf of natural gas and 5, 100 Bbls of oil

2016 – 155, 000 Mcf of natural gas and 4, 200 Bbls of oil

Average sales price per unit

2018 - \$2.91 per Mcf and \$61.46 per Bbls

2017 - \$3.81 per Mcf and \$46.96 per Bbls

2016 - \$4.23 per Mcf and \$41.58 per Bbls

Productive wells

2018 – 153

2017 – 153

2016 – 153

Developed acreage – approximately 20,000 acres

Drilling activity – The Company acquired the operations in Ohio and West Virginia in October 2008 and has, for the most part, focused on improving production from wells. Since the acquisition the Company has drilled 15 wells.

Development plan

In September 2008, the Company through its acquisition of Carl E. Smith, Inc. (now known as Mountaineer State Energy, Inc.) acquired 20,000 acres of mineral rights in Ohio and West Virginia. The 20,000 acres are both surrounded and interspersed of hundreds of existing wells of which 138 producing wells were owned by the Company and other non-related entities owned the rest of such wells. The entire area has pipelines in place and decades of

information regarding reserves.

In connection with the acquisition, the Company formulated a development plan to rework existing wells, to improve production using modern technology, and to follow up with the drilling of new wells. The Company's plan is to use the current knowledge of the area and new technologies available to both rework its existing wells and drill new wells.

6

The decision as to whether to rework existing wells or and or drill new wells is based upon a number of factors including available financing and the market price for both oil and gas. During the last several years the Company has suspended expansion activity for its existing acreage until the price for both oil and gas stabilizes. The Company has evaluated its possible and probable reserves and intends to drill what it anticipate to be four wells during 2019 and 2020 as an anticipated cost of \$370,000 per well.

Oil & Gas Reserves

The following table presents our estimated Oil & Gas Reserves as of December 31, 2018. These estimates correspond with the method used in presenting the “Supplemental Information on Oil and Gas Operations” in Note L to our consolidated financial statements included in this report.

	Gas (MMCF)	Oil (MBBLS)
Oil & Gas Reserves		
U.S. Onshore		
Proved Producing	180	28
Probable	1566	-
Possible	522	-
Total Oil & Gas Reserves	2,268	28

Well Statistics

The following table sets forth our wells (all natural gas) as of December 31, 2018.

Wells	
Gross Net	
(1)	(2)

U.S. Onshore		
Producing	153	148
Non-Producing	44	44
Total wells	197	192

(1) Gross wells are the sum of all wells in which we own an interest.

(2) Net wells are gross wells multiplied by our fractional working interests on the well.

Acreage Statistics

The following table sets forth our developed and undeveloped oil and gas lease and mineral acreage as of December 31, 2018.

	Acres	
	Gross (1)	Net (2)
U. S Onshore		
Developed	19,375	19,375
Undeveloped	-	-
Total Acreage	19,375	19,375

(1) Gross acres are the sum of all acres in which we own an interest.

(2) Net acres are gross acres multiplied by our fractional working interests on the acreage.

(3) Probable Reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together

with proved reserves are as likely as not to be recovered.

(4) Possible reserves are those additional reserves that are less certain to be recovered than probable reserves

Item 3. Legal Proceedings

Carlton Litigation

Since December 2006, Carlton Energy Group, LLC (“Carlton”), an individual, Eurenergy Resources Corporation (“Eurenergy”) and several other entities, including New Concept Energy, Inc., which was then known as CabelTel International Corporation (the “Company”), have been involved in contentious litigation alleging tortious 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 tortious interference with a contract by the individual and Eurenergy related to the right to explore a coal bed methane concession in Bulgaria which had never (and has not to this day) produced any hydrocarbons. At no time during the pendency of this project or since did the Company or any of its officers or directors have any interest whatsoever in the success or failure of the so-called “Bulgaria Project.” However, in the litigation Carlton alleged that the Company was the alter ego of certain of the other defendants, including Eurenergy.

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

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

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.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The common stock of the Company is listed and traded on the NYSE American using the symbol “GBR”. The following table sets forth the high and low sales prices as reported in the reporting system of the NYSE American and other published financial sources

	2018		2017	
	High	Low	High	Low
First Quarter	\$2.45	\$1.26	\$2.70	\$1.02
Second Quarter	\$4.75	\$1.23	\$2.10	\$1.32
Third Quarter	\$6.25	\$1.91	\$1.54	\$1.38
Fourth Quarter	\$2.96	\$1.36	\$1.74	\$1.20

On March 26, 2019 the closing price of the Company's Common Stock was \$1.85 per share. According to the Transfer Agent's records, at March 31, 2018 the Company's Common Stock was held by approximately 2,600 holders of record.

Dividends

The Company paid no dividends on its Common Stock in 2018 or 2017. The Company has not paid cash dividends on its Common stock during at least the last ten fiscal years and it has been the policy of the Board of Directors of the Company to retain all earnings to pay down debt and finance future expansion and development of its businesses. The payment of dividends, if any, will be determined by the Board of Directors in the future in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board of Directors.

Purchases of Equity Securities

The Board of Directors has not authorized the repurchase of any shares of its Common Stock under any share repurchase program, except when stockholders owning less than one round lot (100 shares) so request, the Company will purchase shares at market closing on the last trading day prior to receipt of the certificate(s). The Company repurchased no shares during 2018.

Item 6. Selected Financial Data

The selected consolidated financial data presented below are derived from the Company's audited financial statements.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Overview

The Company, through its wholly owned subsidiaries Mountaineer State Energy, Inc. and Mountaineer State Operations, LLC, owns and 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. The majority of our oil & gas operation was acquired through the acquisition of the Carl E. Smith Companies in 2008.

As of December 31, 2018 the Company has 153 producing gas wells, 44 non-producing wells and related equipment and mineral leases covering approximately 20,000 acres.

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 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. Beginning December 31, 2009, full cost companies use the unweighted arithmetic average first day of the month price for oil and natural gas for the 12-month period preceding the calculation date to calculate the future net revenues of reserves.

The Company assesses any unproved oil and gas properties on an annual basis for possible impairment or reduction in value. The Company assesses properties on an individual basis or as a group if properties are individually insignificant. The assessment includes consideration of the following factors, among others: intent to drill; remaining lease term; geological and geophysical evaluations; drilling results and activity; the assignment of proved reserves; and the economic viability of development if proved reserves are assigned. During any period in which these factors indicate an impairment of unproved properties not subject to amortization, the associated costs incurred to date for

such properties are then included in unproved properties subject to amortization.

Oil and Gas Reserves

Our 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 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.

Depreciation, depletion and amortization (“DD&A”) of producing properties is computed on the unit-of-production method based on estimated oil and gas reserves. While total DD&A expense for the life of a property is limited to the property’s total cost, reserve revisions result in a change in timing of when DD&A expense is recognized. Downward revisions of 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 Financial Accounting Standards Board and the Securities and Exchange Commission. Such assumptions include using average annual oil and gas prices and year-end costs for estimated future development and production expenditures. Discounted future net cash flows are calculated using a 10% rate. Changes in any of these assumptions could have a significant impact on the standardized measure. Accordingly, the standardized measure does not represent management’s estimated current market value of reserves.

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 December 31, 2018, the Company had a deferred tax asset due to tax deductions available to it in future years. However, as management could not determine that it was more likely than not that the benefit of the deferred tax asset would be realized, a 100% valuation allowance was established.

Liquidity and Capital Resources

At December 31, 2018, the Company had current assets of \$4,496,000 (largely due to the sale of 3,000,000 shares of common stock on December 4, 2018) and current liabilities of \$150,000.

Cash and cash equivalents totaled \$361,000 at December 31, 2018 and \$419,000 at December 31, 2017. New Concept's principal sources of cash are property operations, sales of oil and gas, and proceeds from sales of assets.

Net cash provided (used) by continuing operating activities was (\$637,000), in 2018, \$202,000 in 2017 and (\$314,000) in 2016.

Net cash provided (used) in investing activities was (\$3,960,000) in 2018, \$14,000 in 2017 and \$686,000 in 2016.

Net cash provided (used) in financing activities was \$4,539,000 in 2018, \$90,000 in 2017 and (\$732,000) in 2016.

Results of Operations

Fiscal 2018 as compared to 2017

Revenues: Total revenues from the oil & gas operation was \$682,000 in 2018 and \$791,000 in 2017. The decrease was due to the rate the Company received for the sale of its natural gas during 2018.

Operating Expenses: Operating expenses for continuing oil & gas operations was \$844,000 in 2018 and \$1,027,000 in 2017. This decrease was principally due to a reduction of depreciation and depletion expense of \$73,000. The remaining decrease was the result of an overall reduction in operating expenses.

In 2017 pursuant to the requirements of the “full cost ceiling test” for oil & gas companies we recorded a non-cash charge to operations of \$2.6 million to write down its investment in Ohio and West Virginia. This charge to earnings was caused by a revaluation of the Company’s non-producing oil and gas reserves.

Corporate Expenses were \$353,000 in 2018 and \$408,000 in 2017. The decrease was principally due to a reduction in payroll expenses.

Interest Expense: Interest Expense was \$18,000 in 2018 as compared to \$24,000 in 2017. The decrease was due to a reduction in the long term debt.

Fiscal 2017 as compared to 2016

Revenues: Total revenues from the oil & gas operation was \$791,000 in 2017 and \$764,000 in 2016. Net revenue for our oil and gas operation increased by \$27,000 in 2017 as compared to 2016. Included in 2016 revenue is a onetime fee of \$30,000. The increase in revenue in 2017 was principally due to an increase in the quantity of oil and gas produced.

Operating Expenses: Operating expenses for continuing oil & gas operations was \$1,027,000 in 2017 and \$1,181,000 in 2016. This decrease of \$154,000 was principally due to a reduction of depreciation and depletion expense of \$174,000. The remaining increase was the result of an overall reduction in operating expenses.

In 2017 pursuant to the requirements of the “full cost ceiling test” for oil & gas companies we recorded a non-cash charge to operations of \$2.6 million to write down its investment in Ohio and West Virginia. This charge to earnings was caused by a revaluation of the Company’s non-producing oil and gas reserves.

Corporate Expenses were \$408,000 in 2017 and \$352,000 in 2016. The increase is due to an overall increase in operating expenses.

Interest Expense: Interest Expense was \$24,000 in 2017 as compared to \$38,000 in 2016. The decrease was due to a reduction in the long term debt.

Gain on Prepayment of Debt: In 2016 the Company settled a long term debt that was generated from the purchase of the oil and gas operation in 2008. The settlement resulted in a gain of \$888,000.

Other Income & (Expense): Other income & (expense) was \$28,000 for 2017 as compared to (\$110,000) in 2016. In 2017 the most significant item was the receipt of \$64,000 for a receivable the Company had previously written off. The expenses in 2016 were principally the write off assets pertaining to the termination of the lease at the retirement center.

Item 7a: Quantitative and Qualitative Disclosures about Market Risk

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 8. Financial Statements

The consolidated financial statements required by this Item begin at page 24 of this Report.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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.

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.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention or overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting