

**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 MARCH 31, 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: R No: J

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: R No J

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 May 13, 2012)

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

Index to Quarterly Report on Form 10-Q

Period ended March 31, 2012

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	<b>March 31,</b> <b>2012</b>	<b>December</b> <b>31,</b> <b>2011</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 123	\$ 109
Accounts receivable from oil and gas sales	167	167
Other current assets	26	20
<b>Total current assets</b>	<u>316</u>	<u>296</u>
<b>Oil and natural gas properties (full cost accounting method)</b>		
Proved developed and undeveloped oil and gas properties, net of depletion	10,057	11,141
Property and equipment, net of depreciation		
Land, buildings and equipment - oil and gas operations	1,467	1,486
<b>Other</b>	156	150
Total property and equipment	<u>1,623</u>	<u>1,636</u>
<b>Other assets</b>	<u>423</u>	<u>377</u>
<b>Total assets</b>	<u><u>12,419</u></u>	<u><u>\$ 13,450</u></u>

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)

	<u>March 31,</u> <u>2012</u>	<u>December</u> <u>31,</u> <u>2011</u>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable - trade	\$ 358	\$ 422
Accrued expenses	421	417
<b>Total current liabilities</b>	<u>779</u>	<u>839</u>
<b>Long-term debt</b>		
Notes payable	2,309	2,249
Payable - related parties	894	691
Asset retirement obligation	2,735	2,702
Other long-term liabilities	491	491
<b>Total liabilities</b>	<u>7,208</u>	<u>6,972</u>
<b>Stockholders' equity</b>		
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	<u>(53,648)</u>	<u>(52,381)</u>
	<u>5,211</u>	<u>6,478</u>
<b>Total liabilities &amp; equity</b>	<u>\$ 12,419</u>	<u>\$ 13,450</u>

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)

	<b>For the Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		
Oil and gas operations, net of royalties	\$ 290	\$ 280
Real estate operations	674	729
	964	1,009
<b>Operating expenses</b>		
Oil and gas operations	471	335
Real estate operations	366	390
Lease expense	231	191
Corporate general and administrative	159	124
Accretion of asset retirement obligation	34	32
Impairment of natural gas and oil properties	912	-
	2,173	1,072
Operating earnings (loss)	(1,209)	(63)
<b>Other income (expense)</b>		
Interest income	-	119
Interest expense	(62)	(31)
Gain on sale of assets, net	-	-
Other income (expense), net	4	72
Income/(Expense)	(58)	160
Net income (loss) applicable to common shares	\$ (1,267)	\$ 97
Net income (loss) per common share-basic and diluted	\$ (0.65)	\$ 0.05
Weighted average common and equivalent shares outstanding - basic	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 Three Months  
Ended  
March 31,**  
2012      2011

	2012	2011
<b>Cash flows from operating activities</b>		
Net income/loss	\$ (1,267)	\$ 97
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation, depletion and amortization	201	88
Accretion of asset retirement obligation	33	32
Changes in operating assets and liabilities		
Other current and non-current assets	(60)	(102)
Accounts payable and other liabilities	143	(312)
Interest receivable	-	305
Interest payable	30	31
Impairment of oil and gas properties	912	
Net cash provided by (used) in operating activities	(8)	139
<b>Cash flows from investing activities</b>		
Fixed asset additions	(8)	(10)
Net cash provided by (used in) investing activities	(8)	(10)
<b>Cash flows from financing activities</b>		
Proceeds from loans	42	
Repayment of loans to affiliates	-	(117)
Payment on notes payable	(12)	(3)
Net cash provided by (used in) financing activities	30	(120)
Net increase (decrease) in cash and cash equivalents	14	9
Cash and cash equivalents at beginning of year	109	59
Cash and cash equivalents at end of year	\$ 123	\$ 68

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

#### **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 RESERVES**

The Company uses the full cost method of accounting for its investment in oil and natural gas properties. Under this method of accounting, all costs of acquisition, exploration and development of oil and natural gas properties (including such costs as leasehold acquisition costs, geological expenditures, dry hole costs, tangible and intangible development costs and direct internal costs) are capitalized as the cost of oil and natural gas properties when incurred.

The full cost method requires the Company to calculate quarterly, by cost center, a "ceiling," or limitation on the amount of properties that can be capitalized on the balance sheet. To the extent capitalized costs of oil and natural gas properties, less accumulated depletion and related deferred taxes exceed the sum of the discounted future net revenues of proved oil and natural gas reserves, the lower of cost or estimated fair value of unproved properties subject to amortization, the cost of properties not being amortized, and the related tax amounts, such excess capitalized costs are charged to expense.

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

During the past few years the exploration, development and production of natural gas has resulted in an oversupply of natural gas which has resulted in a substantial reduction in the market price. Management of the Company believes that this oversupply will last for some time and does not anticipate an increase in the price we can receive in the market place. In April 2012 the Company 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 as of March 31, 2012.

## **NOTE E: CONTINGENCIES**

### Carlton Energy Group, LLC

In December 2006, Carlton Energy Group, LLC ("Carlton") instituted litigation against an individual, Eurenergy Resources Corporation ("Eurenergy") and several other entities including New Concept Energy, Inc., which was then known as CabelTel International Corporation (the "Company") alleging 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 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 of Harris County, Texas) reduced the actual damages found by the jury of \$66.5 million and entered judgment against EurEnergy and The individual jointly and severally for \$31.16 million in actual damages on its 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.

The Company has filed a Petition 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 March 31, 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 F: OPERATING SEGMENTS**

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

<b>Three months ended March 31, 2012</b>	<b>Oil and Gas Operations</b>	<b>Retirement Facility</b>	<b>Corporate</b>	<b>Total</b>
Operating revenue	\$ 290	\$ 674	\$ -	\$ 964
Operating expenses	290	355	159	804
Depreciation, Depletion and Amortization	181	11	-	192
Lease Expense	-	231	-	231
Accretion of Asset Retirement Obligation	34	-	-	34
	912			912
Total Operating Expenses	1,417	597	159	2,173
Interest expense	(62)	-	-	(62)
Other income	-	-	4	4
Segment operating income	\$ (1,189)	\$ 77	\$ (155)	\$ (1,267)

<b>Three months ended March 31, 2011</b>	<b>Oil and Gas Operations</b>	<b>Retirement Facility</b>	<b>Corporate</b>	<b>Total</b>
Operating revenue	\$ 280	\$ 729	\$ -	\$ 1,009
Operating expenses	259	378	124	761
Depreciation, Depletion and Amortization	76	12	-	88
Lease Expense	-	191	-	191
Accretion of Asset Retirement Obligation	32	-	-	32
Total Operating Expenses	<u>367</u>	<u>581</u>	<u>124</u>	<u>1,072</u>
Interest expense	(31)	-	-	(31)
Other income	-	-	72	72
Interest income	-	-	119	119
Segment operating income	<u>\$ (118)</u>	<u>\$ 148</u>	<u>\$ 67</u>	<u>\$ 97</u>

#### **NOTE G: 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 H: SUBSEQUENT EVENTS**

In April 2012 the Company entering into an agreement to fix the price it receives for the sale of its natural gas. This agreement will be effect from May 2012 through April 2017 during which time the Company will receive \$4.53 per MCF. (See Note D)

## **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 March 31, 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 March 31, 2012, the Company had current assets of \$316,000 and current liabilities of \$779,000.

Cash and cash equivalents at March 31, 2012 were \$123,000 as compared to \$109,000 at December 31, 2011.

Net cash used in operating activities was (\$8,000) for the three months ended March 31, 2012. During the three-month period, the Company had a net loss of \$1,267,000. Included in the net loss was an impairment loss of \$912,000 to reflect a reduction in the accounting value of the Company's oil and gas reserves.

Net cash used in investing activities was \$8,000 for the three months ended March 31, 2012, consisting of the purchase of equipment and other capitalized drilling costs at the Company's oil and gas production facility.

Net cash provided in financing activities was \$30,000 for the three months ended March 31, 2012, consisting of a net increase in loans from a bank.

## Results of Operations

The Company reported a net loss of \$1,267,000 for three months ended March 31, 2012, as compared to net income of \$97,000 for the similar period in 2011.

For the three months ended March 31, 2012, the Company recorded oil and gas revenues of \$290,000 as compared to \$280,000 for the comparable period of 2011. The changes in oil & gas revenue was due to an increase of approximately \$70,000 due to new oil wells that were drilled in late 2011 and a decrease of approximately \$60,000 due to lower prices being received for the sale of our natural gas.

The Company recorded revenues of \$674,000 for the three months ended March 31, 2012 from its retirement property compared to \$729,000 for the comparable period in 2011. The decrease was due almost entirely to a reduction in the number of residence in the facility.

For the three months ended March 31, 2012, the Company recorded oil and gas operating expenses of \$471,000 as compared to \$335,000 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 lead to an acceleration of the depletion expense being recorded.

For the three months ended March 31, 2012, operating expenses and lease expense at the retirement property were \$597,000 as compared to \$581,000 for the comparable period in 2011. The increase was due to an increase in the lease payment being recorded on the property of \$40,000 offset by a general reduction in operating costs.

For the three months ended March 31, 2012, corporate general & administrative expenses were \$159,000 as compared to \$124,000 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 three months ended March 31, 2012, interest income was \$0 as compared to \$119,000 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 March 31, 2012 the Company recorded interest expense of \$62,000 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.

The Company recorded other expense of \$4,000 for the three months ended March 31, 2012. In 2011 other expense was \$72,000 for the comparable period. The expense in 2011 was the result of a one-time legal settlement for \$71,000 that was not anticipated.

## 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.

## 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)
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)
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.





