

CKX Lands Inc
Form 10-Q
November 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**
Commission file number 1-31905

CKX LANDS, INC.

(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of incorporation or organization)

72-0144530
(IRS Employer Identification No.)

901 Lakeshore Drive, 4th Floor, Lake Charles, Louisiana
(Address of principal executive offices)

70601
(Zip Code)

(337) 310-0547

(Registrant's telephone number)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 ☒

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

Edgar Filing: CKX Lands Inc - Form 10-Q

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes " No "

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **1,942,495**

CKX Lands, Inc.

Form 10-Q

For the Quarter Ended September 30, 2008

INDEX

Part I.	<u>Financial Information</u>	Page
Item 1.	<u>Financial Statements</u>	
a.	<u>Balance Sheets as of September 30, 2008 and December 31, 2007</u>	1
b.	<u>Statements of Income for the quarter and nine months ended September 30, 2008 and 2007</u>	2
c.	<u>Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2008 and 2007</u>	3
d.	<u>Statements of Cash Flow for the nine months ended September 30, 2008 and 2007</u>	4
e.	<u>Notes to Financial Statements</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	8
Item 4T.	<u>Controls and Procedures</u>	9
Part II.	<u>Other Information</u>	
Item 6.	<u>Exhibits</u>	10
	<u>Signatures</u>	11
	Exhibits	
	Certification of Joseph K. Cooper, President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.	
	Certification of Brian R. Jones, Treasurer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.	
	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.	

Part I. Financial Information**Item 1. Financial Statements****CKX Lands, Inc.****Balance Sheets****September 30, 2008 and December 31, 2007**

	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,486,800	\$ 1,624,970
1031 trust account Restricted		3,198,153
Certificate of deposit		1,052,270
Accounts receivable	515,294	333,921
Prepaid expense and other assets	82,601	14,469
Total Current Assets	7,084,695	6,223,783
Securities Available for Sale	577,578	2,030,309
Property and Equipment:		
Building and equipment less accumulated depreciation of \$63,470 and \$67,349, respectively	11,681	9,362
Timber less accumulated depletion of \$485,208 and \$454,529, respectively	368,993	400,102
Land	2,820,185	2,361,998
Total Property and Equipment, net	3,200,859	2,771,462
Total Assets	\$ 10,863,132	\$ 11,025,554
LIABILITIES & STOCKHOLDERS EQUITY		
Current Liabilities:		
Trade payables and accrued expenses	54,591	51,469
Dividends payable	135,975	912,973
Income tax payable:		
Current	8,611	590,384
Deferred	90,615	96,292
Total Current Liabilities	289,792	1,651,118
Noncurrent Liabilities:		
Deferred income tax payable	181,818	181,818
Stockholders Equity:		
Common stock, no par value: 3,000,000 shares authorized; 2,100,000 shares issued	72,256	72,256
Retained earnings	10,653,231	9,404,044
Accumulated other comprehensive income	41,551	91,834
Less cost of treasury stock (157,505 shares)	(375,516)	(375,516)
Total Stockholders Equity	10,391,522	9,192,618
Total Liabilities and Stockholders Equity	\$ 10,863,132	\$ 11,025,554

CKX Lands, Inc.

Statements of Income

Quarter and Nine Months ending September 30, 2008 and 2007

	Quarter Ending Sept. 30, 2008	Quarter Ending Sept. 30, 2007	Nine Months Ending Sept. 30, 2008	Nine Months Ending Sept. 30, 2007
Revenues:				
Oil and gas	\$ 1,040,031	\$ 898,974	\$ 2,764,730	\$ 2,270,130
Agriculture	22,168	73,655	75,275	175,384
Timber	28,917	65,525	40,070	99,160
Total revenues	1,091,116	1,038,154	2,880,075	2,544,674
Costs and expenses:				
Oil and gas production	79,878	73,230	226,012	189,078
Agriculture	2,844	1,901	5,168	32,569
Timber	6,629	24,687	22,066	33,907
General and administrative	83,364	154,913	309,205	375,642
Depreciation and depletion	4,397	30,754	12,602	40,037
Total cost and expenses	177,112	285,485	575,053	671,233
Income from operations	914,004	752,669	2,305,022	1,873,441
Other income / (expense):				
Interest income	22,211	31,448	103,996	81,021
Dividend income	7,167	9,189	29,369	26,173
Change in unrealized losses on securities available for sale	42,720		(23,920)	
Gain / (loss) on sale of securities available for sale	(35,085)		(116,730)	(3,446)
Gain on sale of assets			20,908	302,008
Net other income / (expense)	37,013	40,637	13,623	405,756
Income before income taxes	951,017	793,306	2,318,645	2,279,197
Federal and state income tax expense:				
Current	264,368	354,017	633,690	721,614
Deferred	24,081	(104,414)	27,844	16,077
Total income tax expense	288,449	249,603	661,534	737,691
Net income	\$ 662,568	\$ 543,703	\$ 1,657,111	\$ 1,541,506
Per Common Stock (1,942,495 outstanding shares):				
Net Income	\$ 0.34	\$ 0.28	\$ 0.85	\$ 0.79
Dividends	\$ 0.07	\$ 0.07	\$ 0.21	\$ 0.21

See accompanying notes

CKX Lands, Inc.

Statements of Changes in Stockholders' Equity

Nine Months ending September 30, 2008 and 2007

Nine Months Ended September 30, 2008:

	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Capital Stock Issued	Treasury Stock
December 31, 2007 Balance		\$ 9,404,044	\$ 91,834	\$ 72,256	\$ 375,516
Comprehensive income:					
Net income	\$ 1,657,111	1,657,111			
Other comprehensive income:					
Change in unrealized net holdings gains occurring during period, net of taxes of \$43,090	(64,635)				
Change in recognized unrealized loss on securities available for sale, net of taxes of \$9,568	14,352				
Other Comprehensive income, net of taxes	(50,283)		(50,283)		
Total comprehensive income	\$ 1,606,828				
Dividends		(407,924)			
September 30, 2008 Balance		\$ 10,653,231	\$ 41,551	\$ 72,256	\$ 375,516

Nine Months Ended September 30, 2007:

	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Capital Stock Issued	Treasury Stock
December 31, 2006 Balance		\$ 7,895,007	\$ 132,193	\$ 72,256	\$ 375,516
Comprehensive income:					
Net income	\$ 1,541,506	1,541,506			
Other comprehensive income:					
Unrealized net holdings gains occurring during period net of taxes of \$11,115	(16,673)				
Less: reclassification adjustment for net losses included in net income, net of taxes of \$1,378	(2,068)				
Other Comprehensive income, net of taxes	(14,605)		(14,605)		
Total comprehensive income	\$ 1,526,901				
Dividends		(407,924)			

Edgar Filing: CKX Lands Inc - Form 10-Q

September 30, 2007 Balance	\$ 9,028,589	\$ 117,588	\$ 72,256	\$ 375,516
----------------------------	--------------	------------	-----------	------------

See accompanying notes

CKX Lands, Inc.
Statements of Cash Flow
Nine Months ending September 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities:		
Net income	\$ 1,657,111	\$ 1,541,506
Adjusted for non-cash (income) expenses included in net income:		
Depreciation, depletion and amortization	12,602	40,037
Deferred income tax expense	27,844	16,077
Adjusted for non-operating activities:		
Unrealized loss of securities available for sale	23,920	3,446
Realized loss of securities sold	116,730	
(Gain) from sale of land	(20,908)	(302,008)
Change in operating assets and liabilities:		
(Increase) decrease in current assets	(243,308)	41,118
Increase (decrease) in current liabilities	(618,371)	218,155
Net cash provided from operating activities	955,620	1,558,331
Cash Flows From Investing Activities:		
Certificates of deposit:		
Proceeds	1,052,270	1,511,713
Purchases		(1,025,204)
Available for sale securities:		
Purchases		(1,468,488)
Proceeds	1,261,798	1,981,094
Land, Equipment and Timber:		
Purchases	(470,696)	(72,085)
Proceeds	49,606	
Net cash provided from investing activities	1,892,978	927,030
Cash Flows From Financing Activities		
Dividends paid	(1,184,921)	(2,350,419)
Net cash used in financing activities	(1,184,921)	(2,350,419)
Net increase in cash and cash equivalents	1,663,677	134,942
Cash and cash equivalents:		
Beginning of period	4,823,123	1,084,993
Ending of period	\$ 6,486,800	\$ 1,219,935
Supplement Disclosure of Cash Flow Information:		
Cash paid during the period for income taxes	\$ 615,000	\$ 441,791

See accompanying notes

CKX Lands, Inc.

Notes to Financial Statements

September 30, 2008

(Unaudited)

Note 1. Basis of Presentation

In the opinion of management, the accompanying balance sheet and related interim statements of income, and cash flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in accordance with generally accepted accounting principles of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in the CKX Lands, Inc. Form 10-K for the fiscal year ended December 31, 2007.

Note 2. Nature of Business and Significant Accounting Policies

Nature of business:

The Company's business is the ownership and management of land. The primary activities consist of leasing its properties for minerals (oil and gas) and raising timber and agriculture.

Significant accounting policies:

Cash and equivalents:

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, money market fund accounts and all highly liquid debt instruments with original maturities of three months or less.

Pervasiveness of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment securities:

The Company complies with the provisions of Financial Accounting Standards Board Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Under the provisions of this statement, management must make a determination at the time of acquisition whether certain investments in debt and equity securities are to be held as investments to maturity, held as available for sale, or held for trading. Management, under a policy adopted by the board of directors of the Company, made a determination that all debt and equity securities owned at that date and subject to the provisions of the statement would be classified as held available-for-sale.

Under the accounting policies provided for investments classified as held available-for-sale, all such debt securities and equity securities that have readily determinable fair value shall be measured at fair value in the balance sheet. Unrealized holding gains and losses for available-for-sale securities shall be excluded from earnings and reported as a net amount (net of income taxes) as a separate component of retained earnings until realized. Realized gains and losses on available-for-sale securities are included in income. The cost of securities sold is based on the specific identification

method. Interest on debt securities is recognized in income as earned, and dividends on marketable equity securities are recognized in income when declared.

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Property and equipment:

Property and equipment is stated at cost. Major additions are capitalized; maintenance and repairs are charged to income currently. Depreciation is computed on the straight-line and accelerated methods over the estimated useful lives of the assets.

Timber:

When timber land is purchased with standing timber, the cost is divided between land and timber based on timber cruises contracted by the Company. The costs of reforestation are capitalized. The timber asset is amortized when the timber is sold based on the percentage of the timber sold from a particular tract applied to the amount capitalized for timber for that tract.

Oil and gas:

Oil and gas income is booked when the Company is notified by the well's operators as to the Company's share of the sales proceeds together with the withheld severance taxes. The Company has no capitalized costs relating to oil and gas producing activities and no costs for property acquisition, exploration and development activities.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 157 which did not have an impact on our financial statements.

Note 3. Securities Available for Sale

Fair value measurements disclosure for securities available for sale follows:

Description	9/30/2008	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale	\$ 577,578	\$ 577,578		
Total	\$ 577,578	\$ 577,578		

Note 4. Net Income and Dividends per common stock:

Net Income and Dividends per common stock are based on the weighted average number of common stock shares outstanding during the period.

Note 5. Income taxes:

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

In July 2006, the FASB issued FIN 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies that a tax position must be more likely than not of being sustained before being recognized in the financial statements. As required, we adopted the provisions of FIN 48 as of January 1, 2007. The adoption of FIN 48 did not have a material impact on our financial statements.

Note 6. Contingencies:

There are no material contingencies known to management. The Company does not participate in off balance sheet arrangements.

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

Results of Operations

Revenue

Revenue for the first nine months of 2008 was \$2,880,075, an increase of \$335,401 or 13.2% over the first nine months of 2007.

Oil and gas revenue, excluding seismic fees and lease bonus and rental revenue, increased by \$492,822 over 2007. As illustrated in the schedule below, barrels and MCF produced decreased and the average price per barrel and MCF increased in 2008.

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Oil Income	\$ 1,697,502	\$ 1,207,422
Barrels produced	16,424	18,702
Average price per barrel	\$ 103.35	\$ 64.56
Gas income	\$ 979,990	\$ 977,248
MCF produced	97,891	120,419
Average price per MCF	\$ 10.01	\$ 8.12

The decrease in both oil and gas production was due to new fields and new wells within existing fields not offsetting depletion in older fields.

The increase in average price per barrel and MCF is directly related to current energy market price increases.

Total oil and gas cash receipts from the top 5 production companies for the nine months ended September 30, 2008 are as follows:

Production Company	Oil	Barrels	Gas	MCF
Swift Energy	\$ 377,589	3,220	\$ 93,504	8,655
Cox & Perkins	371,575	3,378	52,739	4,441
Riceland Petroleum	164,672	1,504	191,447	21,767
Mayne & Mertz	165,583	1,523	136,411	13,180
Gulfmark Energy	146,202	1,277		
	\$ 1,225,621	10,902	\$ 474,101	48,043

Costs and Expenses

Total costs and expenses decreased by \$96,180 or 14.3% during the nine months ended September 30, 2008 over the same period in 2007. This decrease was primarily due to oil and gas production cost increased by \$36,934, this increase is directly related to the increase in oil and gas revenues; agriculture costs decreased by \$27,401 during 2008 which is directly attributable to the sale of approximately 3,495 acres of primarily farm land in late 2007 (see Exhibit 10); general and administrative expenses decreased by \$66,437 due to lower property taxes related to the sale of the above referenced 3,495 acres and the timing of certain accruals for operating expenses in 2007; depreciation decreased by \$27,435 due to disposal of farm equipment.

Financial Condition

Current assets plus securities available for sale totaled \$7,662,273 and total liabilities equaled \$471,610 at September 30, 2008. Management believes existing cash and securities available for sale with funds generated from operations should be sufficient to meet operating requirements and provide funds for strategic acquisitions.

The Company declared the normal seven cents per common share during the quarter ended September 30, 2008. It is anticipated that the Company will be able to continue paying a seven cents per common share per quarter. From time to time, the Company may elect to pay an extra dividend. In determining if an extra dividend will be declared, the Board of Directors will take into consideration the Company's current liquidity and capital resources and the availability of suitable timberland that has mineral potential.

Issues and Uncertainties

This Quarterly Report contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of issues and uncertainties such as those listed below, which, among others, should be considered in evaluating the Company's financial outlook.

Revenues from oil and gas provide most of the Company's revenue. Assuming that the average price per barrel and MCF had remained at 2007 average prices, the Company's revenue would have decreased by approximately \$883,000 for the nine months ended September 30, 2008. All of these revenues come from wells operated by other companies from properties belonging to CKX Lands, Inc. Consequently, these revenues will fluctuate due to changes in oil and gas prices and changes in the operations of the other companies.

Item 3. Quantitative and Qualitative Disclosure about Market Risk Not Applicable

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designated to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1 -5. Not Applicable

Item 6. Exhibits

- 3.1 Restated/Articles of Incorporation of the Registrant are incorporated by reference to Exhibit (3)-1 to Form 10 filed April 29, 1981.
- 3.2 Amendment to Articles of Incorporation of the Registrant is incorporated by reference to Exhibit (3.2) to Form 10-K for year ended December 31, 2003.
- 3.3 By-Laws of the Registrant are incorporated by reference to Exhibit (3.3) to Form 10-K for year ended December 31, 2003.
- 10 Contract to Purchase and Sell approximately 3,495 acres in Cameron Parish, Louisiana effective July 3, 2007 is incorporated by reference to Exhibit (10) to Form 10-QSB filed August 13, 2007.
- 31.1 Certification of Joseph K. Cooper, President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 31.2 Certification of Brian R. Jones, Treasurer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 32 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CKX Lands, Inc.

Date: November 5, 2008

/s/ Joseph K. Cooper
Joseph K. Cooper
President and Chief Executive Officer

Date: November 5, 2008

/s/ Brian R. Jones
Brian R. Jones
Treasurer and Chief Financial Officer