

CKX Lands Inc
Form 10QSB
August 10, 2006
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-9669

CKX LANDS, INC.

(Exact name of small business issuer as specified in its charter)

Louisiana
(State or other jurisdiction of
incorporation or organization)

One Lakeside Plaza, Lake Charles, Louisiana 70601

(Address of principal executive offices)

337-310-0547

(Issuer's telephone number)

72-0144530
(IRS Employer

Identification No.)

Edgar Filing: CKX Lands Inc - Form 10QSB

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

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

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 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

Transitional Small Business Disclosure Format (Check one): Yes No

Table of Contents

CKX Lands, Inc.

Form 10-QSB

For the Quarter Ended June 30, 2006

INDEX

	Page
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	
a. <u>Balance Sheet as of June 30, 2006</u>	1-2
b. <u>Income Statements for the six months ended June 30, 2006 and 2005</u>	3
c. <u>Cash Flow Statements for the six months ended June 30, 2006 and 2005</u>	4
d. <u>Stockholder s Equity Statement for the six months ended June 30, 2006 and 2005.</u>	5
e. <u>Notes to Financial Statements</u>	6
Item 2. <u>Management s Discussion and Analysis or Plan of Operations</u>	8
Item 4. <u>Controls and Procedures</u>	9
Part II. <u>Other Information</u>	
Item 6. <u>Exhibits and Reports on Form 8-K</u>	9
<u>Signatures</u>	10
Certifications	11-13

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

CKX Lands, Inc.

Balance Sheet

Assets

	June 30, 2006
Current Assets	
Cash and cash equivalents	\$ 2,009,197
Accounts receivables	460,853
Prepaid expense	43,911
Interest receivable	11,788
Total Current Assets	2,525,749
Securities Available for Sale	2,479,029
Property and Equipment (less accumulated depreciation of \$72,157)	5,047
Timber (less accumulated depletion of \$412,138)	440,680
Land	3,998,555
	4,444,282
	\$ 9,449,060

See accompanying notes

Table of Contents

CKX Lands, Inc.

Balance Sheet

Liabilities & Stockholders Equity

	June 30, 2006
Current Liabilities	
Trade payables and accrued expenses	\$ 37,177
Income taxes payable:	
Current	21,935
Deferred	76,513
Total Current Liabilities	135,625
Non-Current Liabilities	
Deferred income tax payable	166,833
Stockholders Equity	
Common stock, no par value: 3,000,000 shares authorized; 2,100,000 shares issued	\$ 72,256
Retained earnings	9,393,235
Accumulated other comprehensive income	56,627
	9,522,118
Less cost of treasury stock (157,505 shares)	375,516
	9,146,602
	\$ 9,449,060

See accompanying notes

Table of Contents**CKX Lands, Inc.****Statements of Income**

	Quarter Ended June 30, 2006	Quarter Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenues:				
Oil and gas	\$ 640,348	\$ 566,943	\$ 1,218,856	\$ 1,115,538
Agriculture	17,119	27,289	74,258	85,785
Timber	48,236	43,736	68,055	46,728
	705,703	637,968	1,361,169	1,248,051
Costs and expenses:				
Oil and gas production	31,431	23,103	62,167	66,585
Agriculture	278	827	1,688	1,244
Timber	6,970	4,822	20,556	15,110
General and administrative	79,233	103,205	195,252	207,929
Depreciation and depletion	2,984	5,226	5,968	6,785
	120,896	137,183	285,631	297,653
Income from operations	584,807	500,785	1,075,538	950,398
Other income (expense):				
Gain-Sale of land	6,028		6,028	
Interest income	34,086	16,172	67,371	29,121
Dividends on stock	18,747	6,472	26,201	12,871
Gain-Sale of Securities	304		7,589	
	59,165	22,644	107,189	41,992
Income before income taxes	643,972	523,429	1,182,727	992,390
Federal and state income taxes:				
Current	198,753	161,669	366,263	303,862
Deferred				
	198,753	161,669	366,263	303,862
Net Income	\$ 445,219	\$ 361,760	\$ 816,464	\$ 688,528
Per common stock (1,942,495 shares)	\$.23	\$.19	\$.42	\$.35
Dividends per share	\$.07	\$.07	\$.24	\$.24
See accompanying notes				

Table of Contents**CKX Lands, Inc.****Statement of Changes in Cash Flows**

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash Flows From Operating Activities		
Net Income	\$ 816,464	\$ 688,528
Noncash (income) expenses included in net income:		
Depreciation and depletion	5,968	6,785
(Gain) on sale of land	(6,028)	
(Gain) on sale of securities	(7,589)	
(Increase) decrease in current assets	(3,845)	(52,318)
Increase (decrease) in current liabilities	(92,560)	35,489
Net cash provided by operating activities	712,410	678,484
Cash Flows From Investing Activities		
Proceeds from sale of land	6,028	
Purchase of available for sale securities		(580,697)
Sale of available for sale securities	836,469	
Purchase of property, equipment and timber		(6,834)
Net cash provided by (used in) investing activities	842,497	(587,531)
Cash Flows From Financing Activities		
Dividends paid net of refunds	(466,199)	(466,426)
Net cash (used in) investing activities	(466,199)	(466,426)
Net increase (decrease) in cash and cash equivalents	1,088,708	(375,473)
Cash and cash equivalents:		
Beginning	920,489	1,214,405
Ending	\$ 2,009,197	\$ 838,932

See accompanying notes

Table of Contents**CKX Lands, Inc.****Statement of Changes in Stockholders Equity****Six Months Ended June 30, 2005**

	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Capital Stock Issued	Treasury Stock
Balance, December 2004		\$ 8,220,502	\$ 50,781	\$ 72,256	\$ 375,516
Comprehensive income:					
Net income	\$ 688,528	688,528			
Other comprehensive income:					
Unrealized holdings loss occurring during period net of taxes of \$5,024	(7,858)		(7,858)		
Total comprehensive income	\$ 680,670				
Dividends		(466,425)			
Balance, June 30, 2005		\$ 8,442,605	\$ 42,923	\$ 72,256	\$ 375,516

Six Months Ended June 30, 2006

	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Capital Stock Issued	Treasury Stock
Balance, December 2005		\$ 9,042,970	\$ 31,502	\$ 72,256	\$ 375,516
Comprehensive income:					
Net income	\$ 816,464	816,464			
Other comprehensive income:					
Unrealized holdings gain occurring during period net of taxes of \$13,509	25,125		25,125		
Total comprehensive income	\$ 841,589				
Dividends		(466,199)			
Balance, June 30, 2006		\$ 9,393,235	\$ 56,627	\$ 72,256	\$ 375,516

See accompanying notes

Table of Contents

CKX Lands, Inc.

Notes to Financial Statements

June 30, 2006

(Unaudited)

Note 1. Basis of Presentation

In the opinion of management, the accompanying balance sheet and related interim statements of income, cash flows, and stockholders' equity 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-QSB should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in the CKX Lands, Inc. 2005 Form 10-KSB.

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 agriculture and raising timber.

Significant accounting policies:

Cash and equivalents:

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, 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,

Table of Contents

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 debts 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.

Note 3. Earnings per share:

Earnings per share is based on the weighted average number of common shares outstanding during the year.

Note 4. 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.

Note 5. Contingencies:

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

Table of Contents**Item 2. Management's Discussion and Analysis or Plan of Operation**

Results of Operations

Revenue

Revenue for the first six months of 2006 was \$1,361,169 an increase of \$113,118 or 9.1% over the first six months of 2005. Revenue for the quarter ended June 30, 2006 was \$705,703 or 10.6% over the corresponding quarter of 2005. Revenues from agriculture and timber for the first six months of 2006 were down slightly from the first six months of 2005. Oil and gas income was up in 2006 over 2005 for both the first six months and the second quarter periods.

Shown below are comparisons for the two periods of oil and gas production and income from the seven largest interests owned by the Company

	Six Months Ended	Six Months Ended
	June 30, 2006	June 30, 2005
Oil Income	\$ 418,850	\$ 371,923
Barrels produced	6,784	7,760
Average price per barrel	\$ 61.74	\$ 49.92
Gas income	\$ 517,267	\$ 475,869
MCF produced	45,262	62,494
Average price per mcf	\$ 11.42	\$ 7.61

Increased oil and gas prices in the first six months of 2006 over the first six months of 2005 yielded higher oil and gas revenue despite a decline in barrels of oil produced and MCF of gas production.

There are no new well completed in the second quarter of 2006.

Operating Expenses

Operating expenses decreased \$12,022 or 4% during the first six months of 2006 over the same period in 2005. The general and administrative expenses decreased by \$12,677 compared to the first six months of 2005.

Income

Net income after taxes for the quarter ended June 30, 2006 increased \$83,459 or 23.1% over the second quarter of 2005. Net income after tax for the first six months of 2006 was \$127,936 higher than in 2005, and income from operations was \$125,140 higher in 2006 than in 2005.

Financial Condition

Current assets plus securities available for sale totaled \$5,004,778 on June 30, 2006, compared with \$4,052,453 on June 30, 2005. Total liabilities were \$302,458 on June 30, 2006, compared to \$245,732 on June 30, 2005.

Management believes existing cash and short-term investments together with funds generated from operations should be sufficient to meet operating requirements and provide funds for strategic acquisitions.

Table of Contents

The Company declared the normal seven cents per common share during the quarter ended June 30, 2006. It is anticipated that the Company will be able to continue paying a seven cents per common share per quarter.

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 income. All of these revenues come from wells operated by other companies from property belonging to CKX Lands, Inc. Consequently, these revenues fluctuate due to changes in oil and gas prices and changes in the operations of the other companies.

Item 4. Controls and Procedures

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) as of June 30, 2006. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits

- 31.1 Certification of Arthur Hollins, III, President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 31.2 Certification of Michael P. Terranova, 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.

(B) Reports on Form 8-K

On April 24, 2006, we filed a Current Report on Form 8-K announcing the election of Michael P. Terranova as Treasurer and Chief Financial Officer to succeed William D. Blake, who retired as Vice-President and Treasurer.

Items 1, 2, 3 and 5 are not applicable.

Table of Contents

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.

Date: August 4, 2006

CKX Lands, Inc.

/s/ Michael P. Terranova
Michael P. Terranova
Treasurer and Chief Financial Officer

/s/ Arthur Hollins III
Arthur Hollins, III
President and Chief Executive Officer