

CKX Lands Inc
Form 10QSB
May 11, 2007
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 March 31, 2007

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)

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Louisiana
(State or other jurisdiction of incorporation or organization)

72-0144530
(IRS Employer Identification No.)

751 Bayou Pines East, Suite C, Lake Charles, Louisiana 70601

(Address of principal executive offices)

337-310-0547

(Issuer's telephone number)

(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

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 March 31, 2007

INDEX

| | Page |
|--|-------------|
| Part I. Financial Information | |
| Item 1. Financial Statements | |
| a. <u>Balance Sheet as of March 31, 2007</u> | 1 |
| b. <u>Statements of Income for the three months ended March 31, 2007 and 2006</u> | 2 |
| c. <u>Statements of Changes in Stockholders' Equity for the three months ended March 31, 2007 and 2006</u> | 3 |
| d. <u>Statements of Cash Flows for the three months ended March 31, 2007 and 2006</u> | 4 |
| e. <u>Notes to Financial Statements</u> | 5 |
| Item 2. <u>Management's Discussion and Analysis or Plan of Operations</u> | 7 |
| Item 3. <u>Controls and Procedures</u> | 8 |
| Part II. Other Information | |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 9 |
| Item 6. <u>Exhibits</u> | 9 |
| <u>Signatures</u> | 10 |
| <u>Certifications</u> | |

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****CKX Lands, Inc.****Balance Sheet**

| | March 31, 2007 |
|--|-----------------------|
| ASSETS | |
| Current Assets: | |
| Cash and cash equivalents | \$ 913,783 |
| Certificate of deposit | 1,000,000 |
| Accounts receivables | 392,540 |
| Prepaid expense and other | 32,966 |
| Total Current Assets | 2,339,289 |
| Securities Available for Sale | 1,637,895 |
| Property and Equipment: | |
| Building and equipment less accumulated depreciation of \$88,012 | 89,853 |
| Timber less accumulated depletion of \$446,834 | 400,514 |
| Land | 4,004,963 |
| Total Property and Equipment, net | 4,495,330 |
| Total Assets | \$ 8,472,514 |
| Liabilities and Stockholders Equity | |
| Current Liabilities: | |
| Trade payables and accrued expenses | \$ 50,934 |
| Income taxes payable: | |
| Current | 136,574 |
| Deferred | 137,974 |
| Total Current Liabilities | 325,482 |
| Noncurrent 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 | 8,131,427 |
| Accumulated other comprehensive income | 152,032 |
| Less cost of treasury stock (157,505 shares) | (375,516) |
| Total stockholders equity | 7,980,199 |
| Total Liabilities and Stockholders Equity | \$ 8,472,514 |

See accompanying notes

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

| | Three Months Ended March 31, 2007 | Three Months Ended March 31, 2006 |
|--|--------------------------------------|--------------------------------------|
| Revenues: | | |
| Oil and gas | \$ 603,314 | \$ 578,508 |
| Agriculture | 67,166 | 57,139 |
| Timber | 33,634 | 19,819 |
| Total revenues | 704,114 | 655,466 |
| Costs and Expenses: | | |
| Oil and gas production | 53,905 | 30,736 |
| Agriculture | 5,640 | 1,410 |
| Timber | 649 | 13,586 |
| General and administrative | 125,224 | 116,019 |
| Depreciation and depletion | 7,606 | 2,984 |
| Total cost and expenses | 193,024 | 164,735 |
| Income from operations | 511,090 | 490,731 |
| Other Income / (Expense): | | |
| Interest income | 24,800 | 33,285 |
| Dividend income | 8,469 | 7,454 |
| Gain / (loss) on sale of securities available for sale | (2,068) | 7,285 |
| Net other income / (expense) | 31,201 | 48,024 |
| Income before income taxes | 542,291 | 538,755 |
| Federal and state income taxes: | | |
| Current | 169,443 | 167,510 |
| Deferred | | |
| Total income taxes | 169,443 | 167,510 |
| Net Income | \$ 372,848 | \$ 371,245 |
| Per common stock (1,942,495 shares) | \$ 0.19 | \$ 0.19 |
| Dividends per share | \$ 0.07 | \$ 0.17 |

See accompanying notes

Table of Contents**CKX Lands, Inc.****Statements of Changes in Stockholders' Equity**Three Months Ended March 31, 2007:

| | | | Accumulated | | |
|--|-------------------------|----------------------|----------------------------------|----------------------------|-------------------|
| | Comprehensive Income | Retained Earnings | 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 | \$ 372,848 | 372,848 | | | |
| Other comprehensive income: | | | | | |
| Unrealized net holdings gains occurring during period net of taxes of \$12,067 | 18,101 | | | | |
| Less: reclassification adjustment for net losses included in net income, net of taxes of \$1,159 | (1,738) | | | | |
| Other Comprehensive income, net of taxes | 19,839 | | 19,839 | | |
| Total comprehensive income | \$ 392,687 | | | | |
| Dividends | | (136,428) | | | |
| March 31, 2007 Balance | | \$ 8,131,427 | \$ 152,032 | \$ 72,256 | \$ 375,516 |

Three Months Ended March 31, 2006:

| | | | Accumulated | | |
|--|-------------------------|----------------------|----------------------------------|----------------------------|-------------------|
| | Comprehensive Income | Retained Earnings | Other Comprehensive Income | Capital Stock Issued | Treasury Stock |
| December 31, 2005 Balance | | \$ 9,042,971 | \$ 31,503 | \$ 72,256 | \$ 375,516 |
| Comprehensive income: | | | | | |
| Net income | \$ 371,245 | 371,245 | | | |
| Other comprehensive income: | | | | | |
| Unrealized net holdings gains occurring during period net of taxes of \$14,568 | 21,851 | | 21,851 | | |
| Total comprehensive income | \$ 393,096 | | | | |
| Dividends | | (323,039) | | | |
| March 31, 2006 Balance | | \$ 9,091,177 | \$ 53,354 | \$ 72,256 | \$ 375,516 |

See accompanying notes

Table of Contents**CKX Lands, Inc.****Statements of Cash Flows**

| | Three Months Ended March 31, 2007 | Three Months Ended March 31, 2006 |
|---|--|--|
| Cash Flows From Operating Activities: | | |
| Net Income | \$ 372,848 | \$ 371,245 |
| Noncash (Income) expenses included in net income: | | |
| Depreciation, depletion and amortization | 7,606 | 2,984 |
| (Gain) / loss from securities sales | 2,068 | |
| Change in operating assets and liabilities: | | |
| (Increase) decrease in current assets | (11,889) | 118,352 |
| Increase (decrease) in current liabilities | 156,554 | 99,096 |
| Net cash provided by operating activities | 527,187 | 591,677 |
| Cash Flows From Investing Activities: | | |
| Net sale of certificate of deposits | 511,713 | |
| Available-for-sale securities: | | |
| Purchases | (487,870) | (4,888) |
| Sales | 1,492,657 | 347,658 |
| Net cash provided by (used in) investing activities | 1,516,500 | 342,770 |
| Cash Flows From Financing Activities | | |
| Dividends paid net of refunds | (2,214,897) | (128,790) |
| Net cash (used in) financing activities | (2,214,897) | (128,790) |
| Net increase (decrease) in cash and cash equivalents | (171,210) | 805,657 |
| Cash and cash equivalents: | | |
| Beginning | 1,084,993 | 920,489 |
| Ending | \$ 913,783 | \$ 1,726,146 |

See accompanying notes

Table of Contents

CKX Lands, Inc.

Notes to Financial Statements

March 31, 2007

(Unaudited)

Note 1. Basis of Presentation

In the opinion of management, the accompanying balance sheet and related interim statements of income, changes in stockholders' equity, 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-QSB should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in the CKX Lands, Inc. 2006 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, all such debt securities and equity securities that have readily determinable fair value shall

Table of Contents

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.

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 Operations**

Results of Operations

Revenue

Revenue for the first three months of 2007 was \$704,114, an increase of \$48,648 or 7.4% over the first three months of 2006. Oil and gas income exceed 2006 by \$63,068 and both barrels produced and MCF produced exceed 2006 volumes. However, as illustrated in the schedule below, average price per barrel and MCF were lower in 2007.

| | Three Months Ended | Three Months Ended |
|--------------------------|--------------------|--------------------|
| | March 31, 2007 | March 31, 2006 |
| Oil Income | \$ 283,384 | \$ 173,194 |
| Barrels produced | 4,765 | 2,857 |
| Average price per barrel | \$ 59.47 | \$ 60.62 |
| Gas income | \$ 251,441 | \$ 298,563 |
| MCF produced | 31,914 | 22,669 |
| Average price per MCF | \$ 7.88 | \$ 13.17 |

The increase in both oil and gas production was due to new fields more than offsetting depletion in older fields. There were two new fields, Bon Air and South Lake Charles which accounted for all of the increase in both oil and gas production. Neither field had been brought in prior to March 31, 2006. The Company's share of Bon Air oil production in the first quarter of 2007 was 1,923 barrels. The Company's share of oil produced in the first quarter of 2007 from South Lake Charles was 250 barrels. The Company's share of gas produced in 2007 from Bon Air was 17,286 MCF and from South Lake Charles was 2,363 MCF.

Largest decline in production for oil was from the Vinton field which declined 368 barrels from 1,085 barrels to 717 barrels. The largest decrease in gas production were from Castor Creek which went from 11,699 MCF to 7,281 MCF and Bunchy Creek which went from 2,395 MCF to 513 MCF.

The Company will have an approximately 1.5% in new production from the Abdalla #1 in Southeast Unita field which tested at 125 barrels of oil and 2,500 MCF of gas. The Company has also signed a division order for the Glover #1 in Calcasieu Parish and will have a 0.23528% interest in the production. The Company will also have a small interest in the Irby #4 in Beauregard Parish which is currently being completed.

On April 30, 2007, Walker Louisiana Properties completed the sale of 100 acres on South Park Drive for \$1,912,050. This is the first sale from a tract of land totaling approximately 1,300 acres which Walker Louisiana Properties owns on the South border of Lake Charles, LA. The Company owns a one-sixth interest in this land which has a basis of approximately \$1,000 per acre.

Revenue from both Agriculture and Timber activities remained relatively the same as in previous years.

Table of Contents

Operating Expenses

Operating expenses increased by \$28,289 or 17.2% during the first quarter of 2007 over the same period in 2006. The largest increase was \$23,169 for increased production severance taxes reported from oil and gas operators.

Financial Condition

Current assets plus securities available for sale totaled \$3,977,184 at March 31, 2007, compared with \$5,625,409 at December 31, 2006 and \$5,096,936 at March 31, 2006. Total liabilities were \$492,315 at March 31, 2007, compared to \$2,404,405 at December 31, 2006 and \$702,931 at March 31, 2006

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.

The Company declared the normal seven cents per common share during the quarter ended March 31, 2007. 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 3. 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 March 31, 2007. 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.

Table of Contents**Part II. Other Information****Item 4. Submission of Matters to a Vote of Security Holders**

The Annual Meeting of Stockholders was held on April 26, 2007.

The following proposals were adopted by the margins indicated:

1. To elect a Board of Directors to hold office until their successors are elected and qualified.

| | Number of Shares | |
|----------------------|------------------|----------|
| | For | Withheld |
| Arthur Hollins, III | 1,511,985 | 2,326 |
| Brian R. Jones | 1,511,985 | 2,326 |
| Charles D. Viccellio | 1,511,985 | 2,326 |
| Henry E. Blake | 1,511,985 | 2,326 |
| Laura A. Leach | 1,511,651 | 2,660 |
| Frank O. Pruitt | 1,511,985 | 2,326 |
| B. James Reaves, III | 1,511,985 | 2,326 |
| Mary W. Savoy | 1,511,985 | 2,326 |
| William Gray Stream | 1,511,835 | 2,476 |
| Mary Leach Werner | 1,511,985 | 2,326 |

2. To approve McElroy, Quirk and Burch APC as auditors for the 2007 fiscal year.

| | |
|-----------|-----------|
| For | 1,513,146 |
| Against | 0 |
| Abstained | 1,165 |

Item 6. Exhibits

(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 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.

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: May 9, 2007

CKX Lands, Inc.

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

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