

CKX Lands Inc
Form 10QSB
November 14, 2005
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 September 30, 2005

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)

72-0144530
(IRS Employer Identification No.)

One Lakeside Plaza, Lake Charles, Louisiana 70601

Edgar Filing: CKX Lands Inc - Form 10QSB

(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

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

Table of Contents

CKX Lands, Inc.

Form 10-QSB

For the Quarter Ended September 30, 2005

INDEX

	Page
Part I. Financial Information	
Item 1. Financial Statements	
<u>a. Balance Sheet as of September 30, 2005</u>	1-2
<u>b. Income Statements for the nine months ended September, 2005 and 2004</u>	3
<u>c. Cash Flow Statements for the nine months ended September 30, 2005 and 2004</u>	4
<u>d. Stockholder s Equity Statement for the nine months ended September 30, 2005</u>	5
<u>e. Notes to Financial Statements</u>	6
<u>Item 2. Management s Discussion and Analysis or Plan of Operations</u>	9
<u>Item 4. Controls and Procedures</u>	11
Part II. Other Information	
<u>Item 6. Exhibits and Reports on Form 8-K</u>	12
<u>Signatures</u>	12
Certifications	

Table of Contents

Part I. Financial Information

Item1. Financial Statements

CKX Lands, Inc.

Balance Sheet

Assets

	September 30, 2005
	<u> </u>
Current Assets	
Cash and cash equivalents	\$ 1,109,414
Accounts receivables	349,411
Prepaid expense and income tax	33,657
Interest receivable	6,953
	<u> </u>
Total Current Assets	1,499,435
	<u> </u>
Securities Available for Sale	2,782,147
	<u> </u>
Property and Equipment (less accumulated depreciation of \$69,221)	8,100
Timber (less accumulated depletion of \$385,156)	449,091
Land	3,892,845
	<u> </u>
	4,350,036
	<u> </u>
	\$ 8,631,618
	<u> </u>

See accompanying notes

Table of Contents

CKX Lands, Inc.

Balance Sheet

Liabilities & Stockholders Equity

	September 30, 2005
Current Liabilities	
Trade payables and accrued expenses	\$ 48,196
Dividend payable	135,975
Income taxes payable:	
Deferred	49,886
Total Current Liabilities	234,057
Stockholders Equity	
Common stock, no par value: 3,000,000 shares authorized; 2,100,000 shares issued	\$ 72,256
Retained earnings	8,675,592
Accumulated other comprehensive income	25,229
	8,773,077
Less cost of treasury stock (157,505 shares)	375,516
	8,397,561
	\$ 8,631,618

See accompanying notes

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

	Quarter Ended September 30, 2005	Quarter Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenues:				
Oil and gas	\$ 608,948	\$ 567,147	\$ 1,724,486	\$ 1,561,571
Agriculture	44,189	75,052	129,974	173,707
Timber	5,108	167,912	51,836	217,655
	<u>658,245</u>	<u>810,111</u>	<u>1,906,296</u>	<u>1,952,933</u>
Costs and expenses:				
Oil and gas production	39,569	34,197	106,154	101,618
Agriculture	1,967	2,516	3,211	5,064
Timber	42,011	12,350	57,121	20,963
General and administrative	61,229	79,881	269,158	262,432
Depreciation and depletion	1,750	10,178	8,535	15,774
	<u>146,526</u>	<u>139,122</u>	<u>444,179</u>	<u>405,851</u>
Income from operations	<u>511,719</u>	<u>670,989</u>	<u>1,462,117</u>	<u>1,547,082</u>
Other income (expense):				
Gain-Sale of land				1,426
Interest income	20,974	15,808	50,095	39,817
Dividends on stock	7,195	5,395	20,066	18,714
Gain-Sale of Securities				86,458
	<u>28,169</u>	<u>21,203</u>	<u>70,161</u>	<u>146,415</u>
Income before income taxes	<u>539,888</u>	<u>692,192</u>	<u>1,532,278</u>	<u>1,693,497</u>
Federal and state income taxes:				
Current	170,704	224,976	486,032	539,143
Deferred				
	<u>170,704</u>	<u>224,976</u>	<u>486,032</u>	<u>539,143</u>
Net Income	<u>\$ 369,184</u>	<u>\$ 467,216</u>	<u>\$ 1,057,712</u>	<u>\$ 1,154,354</u>
Per common stock (2005; 1,942,495 shares; 2004; 1,942,495 shares)	\$.19	\$.24	\$.54	\$.59
Dividends per share	\$.07	\$.07	\$.31	\$.21

See accompanying notes

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

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
	<u> </u>	<u> </u>
Cash Flows From Operating Activities		
Net Income	\$ 1,057,712	\$ 1,154,354
Noncash (income) expenses included in net income:		
Depreciation and depletion	8,535	15,774
Timber loss	28,666	
(Gain) on sale of assets	(87,884)	
(Increase) decrease in current assets	(39,320)	(128,858)
Increase (decrease) in current liabilities	35,824	4,038
	<u> </u>	<u> </u>
Net cash provided by operating activities	1,091,417	957,424
	<u> </u>	<u> </u>
Cash Flows From Investing Activities		
Proceeds from sale of land		5,454
Purchase of available for sale securities	(1,582,042)	(2,060,625)
Sale of available for sale securities	999,993	1,815,878
Purchase of property, equipment and timber	(11,736)	(15,579)
	<u> </u>	<u> </u>
Net cash provided by (used in) investing activities	(593,785)	(254,872)
	<u> </u>	<u> </u>
Cash Flows From Financing Activities		
Dividends paid net of refunds	(602,623)	(395,812)
	<u> </u>	<u> </u>
Net cash (used in) financing activities	(602,623)	(395,812)
	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	(104,991)	306,740
Cash and cash equivalents:		
Beginning	1,214,405	527,219
	<u> </u>	<u> </u>
Ending	\$ 1,109,414	\$ 833,959
	<u> </u>	<u> </u>

See accompanying notes

Table of Contents**CKX Lands, Inc.****Statement of Changes in Stockholders' Equity****Nine Months Ended September 30, 2005**

	<u>Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Capital Stock Issued</u>	<u>Treasury Stock</u>
Balance, December 2004		\$ 8,220,502	\$ 50,781	\$ 72,256	(\$ 375,516)
Comprehensive income:					
Net income	\$ 1,057,712	1,057,712			
Other comprehensive income:					
Unrealized holdings loss occurring during period net of taxes of \$17,034	(25,552)		(25,552)		
	<u>1,032,160</u>				
Total comprehensive income	\$ 1,032,160				
Dividends		(602,622)			
		<u>8,675,592</u>	<u>25,229</u>	<u>72,256</u>	<u>(375,516)</u>
Balance, September 30, 2005		\$ 8,675,592	\$ 25,229	\$ 72,256	(\$ 375,516)

See accompanying notes

Table of Contents

CKX Lands, Inc.

Notes to Financial Statements

September 30, 2005

(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. 2004 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:

Edgar Filing: CKX Lands Inc - Form 10QSB

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.

Table of Contents

CKX Lands, Inc.

Notes to Financial Statements (Continued)

September 30, 2005

(Unaudited)

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:

Edgar Filing: CKX Lands Inc - Form 10QSB

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.

Table of Contents

CKX Lands, Inc.

Notes to Financial Statements (Continued)

September 30, 2005

(Unaudited)

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 nine months of 2005 was \$1,906,296 a decrease 2.4% or \$46,637 compared to the first nine months of 2004. Oil and gas revenue was up \$162,915 while agriculture was down \$43,733 and timber was down \$165,819. The oil and gas revenues in the third quarter of 2005 were up 7.4% over the third quarter of 2004 while agriculture revenues were down 41.1% and timber revenues were down \$162,804 or 97%.

Oil and gas revenues included \$226,242 from seismic permits and mineral leases for the first nine months ended September 30, 2005, compared to \$55,580 for the same period in 2004, an increase of \$170,662. Oil and gas royalty revenues were down \$7,747 in 2005 compared to 2004. Shown below are comparisons for the two periods of oil and gas production and income from the six largest interests owned by the Company.

Table of Contents

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Oil income	\$ 508,020	\$ 716,507
Barrels produced	14,144	19,737
Average price per barrel	\$ 50.08	\$ 36.30
Gas income	\$ 653,010	\$ 534,366
MCF produced	84,239	78,740
Average price per mcf	\$ 7.75	\$ 6.79

Our share of barrels of oil produced declined by 7,183 from the South Gordon Field; 2,147 from the Vinton Field; and 271 from the Castor Creek Field.

Our gas production increased by 20,801 mcf from the Castor Creek Field and decreased by 13,196 mcf from the South Gordon Field.

The decrease in agriculture income was due to right of way income in 2004 for transmission lines and lower hunting leases in 2005. The hunting lease income decrease was caused by Hurricane Rita.

The decrease in timber income was also caused by Hurricane Rita. Negotiations for timber sales that were in process were cancelled by the hurricane. It not only damaged tracts under negotiation it also decreased market prices since the local market was flooded by timber on the ground.

Operating Expenses

Total costs and expenses increased \$38,328 in 2005 over 2004. Beginning in 2005 the Company began accruing estimated property taxes. This amounted to \$37,230 as of September 30, 2005. The Company estimates a six percent loss to its timber inventory as a consequence of Hurricane Rita. This resulted in a timber expense of \$28,666 in the quarter ended September 30, 2005.

Income

Net income before income taxes for the nine months ended September 30, 2005, was \$161,219 less than the nine months ended September 30, 2004. Of this amount \$86,458 was a gain on sale of securities in 2004 and the balance was a combination of lower revenues and higher costs and expenses. Net income after taxes was \$98,032 lower in the third quarter of 2005 compared to the third quarter of 2004, and \$96,642 less for the nine months ended September 30, 2005, compared to the nine months ended September 30, 2004.

Financial Condition

Edgar Filing: CKX Lands Inc - Form 10QSB

Current assets plus securities available for sale totaled \$4,281,582 on September 30, 2005, compared with \$3,807,789 on December 31, 2004, and \$3,451,394 on September 30, 2004. Current liabilities, which were also total liabilities were \$234,057 on September 30, 2005, compared to \$215,267 on December 31, 2004, and \$191,374 on September 30, 2004.

Table of Contents

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 September 30, 2005. It is anticipated that the Company will be able to continue paying a seven cents per common share dividend 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.

The Company is working to salvage as much downed timber as possible. Recoveries will have to be marketed immediately. It isn't possible to estimate potential recoveries.

During October, 2005, an additional well was completed by Cox and Perkins in the South Gordon field. CKX Lands, Inc. has a 3.25% interest in the unit. Initial production is 1,000 barrels of oil and 1,500,000 cubic feet of gas per day.

There are three wells in progress on Walker Louisiana lands. CKX Lands interest will vary from production if successful from .625% to 2.50%. In addition Walker Louisiana has twenty mineral leases in force. CKX Lands, Inc. has five mineral leases in force.

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 September 30, 2005. 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 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 William D. Blake, Vice-President and 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

A Form 8-K was filed August 4, 2005, reporting the resignation of Troy Freund as a member of the Board of Directors due to personal reasons. Mr. Freund's resignation did not involve a disagreement with the Corporation on any matter.

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

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: November 3, 2005

CKX Lands, Inc.

/s/ William D. Blake
William D. Blake

Vice-President and Treasurer

Chief Financial Officer

/s/ Arthur Hollins, III

Edgar Filing: CKX Lands Inc - Form 10QSB

Arthur Hollins, III

President and

Chief Executive Officer

12