

CKX Lands Inc
Form 10QSB
November 13, 2006
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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, 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 **72-0144530**
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)
One Lakeside Plaza, 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

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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 ☒

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CKX Lands, Inc.

Form 10-QSB

For the Quarter Ended September 30, 2006

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Part I. Financial Information

Item 1. Financial Statements

CKX Lands, Inc.

Balance Sheet

Assets

	September 30, 2006
Current Assets	
Cash and cash equivalents	\$ 2,332,714
Accounts receivables	381,430
Prepaid expense	55,277
Interest receivable	27,287
Total Current Assets	2,796,708
Securities Available for Sale	2,570,400
Property and Equipment (less accumulated depreciation of \$84,057)	92,990
Timber (less accumulated depletion of \$421,470)	431,348
Land	3,998,555
	4,522,893
	\$ 9,890,001

See accompanying notes

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CKX Lands, Inc.

Balance Sheet

Liabilities & Stockholders Equity

	September 30, 2006
Current Liabilities	
Trade payables and accrued expenses	\$ 61,045
Dividends Payable	135,971
Income taxes payable:	
Deferred	102,931
 Total Current Liabilities	 299,947
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	9,604,901
Accumulated other comprehensive income	121,580
	9,798,737
Less cost of treasury stock (157,505 shares)	375,516
	9,423,221
	\$ 9,890,001

See accompanying notes

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

	Quarter Ended September 30, 2006	Quarter Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenues:				
Oil and gas	\$ 497,302	\$ 608,948	\$ 1,716,158	\$ 1,724,486
Agriculture	50,545	44,189	124,803	129,974
Timber	75,214	5,108	143,269	51,836
	623,061	658,245	1,984,230	1,906,296
Costs and expenses:				
Oil and gas production	24,580	39,569	86,747	106,154
Agriculture	952	1,967	2,640	3,211
Timber	14,245	42,011	21,901	57,121
General and administrative	70,416	61,229	265,668	269,158
Depreciation and depletion	10,617	1,750	29,485	8,535
	120,810	146,526	406,441	444,179
Income from operations	502,251	511,719	1,577,789	1,462,117
Other income (expense):				
Gain-Sale of land	429		6,457	
Interest income	19,028	20,974	93,988	50,095
Dividends on stock	6,427	7,195	32,628	20,066
Gain-Sale of Securities	7,589		7,589	
	33,473	28,169	140,662	70,161
Income before income taxes	535,724	539,888	1,718,451	1,532,278
Federal and state income taxes:				
Current	188,088	170,704	554,351	474,566
Deferred				
	188,088	170,704	554,351	474,566
Net Income	\$ 347,636	\$ 369,184	\$ 1,164,100	\$ 1,057,712
Per common stock (1,942,495 shares)	\$.18	\$.19	\$.60	\$.54
Dividends per share	\$.07	\$.07	\$.31	\$.31

See accompanying notes

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

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Cash Flows From Operating Activities		
Net Income	\$ 1,164,100	\$ 1,057,712
Noncash (Income) expenses included in net income:		
Depreciation and depletion	27,200	8,535
Timber loss		28,666
(Gain) on sale of land	(6,457)	
(Gain) on sale of assets	(7,589)	
(Increase) decrease in current assets	48,713	(39,320)
Increase (decrease) in current liabilities	31,815	35,824
 Net cash provided by operating activities	 1,257,782	 1,091,417
Cash Flows From Investing Activities		
Proceeds from sale of land	6,456	
Purchase of available for sale securities	(511,713)	(1,582,042)
Sale of available for sale securities	1,361,712	999,993
Purchase of property, equipment and timber	(99,842)	(11,736)
 Net cash provided by (used in) investing activities	 756,613	 (593,785)
Cash Flows From Financing Activities		
Dividends paid net of refunds	(602,170)	(602,623)
 Net cash (used in) investing activities	 (602,170)	 (602,623)
 Net increase (decrease) in cash and cash equivalents	 1,412,225	 (104,991)
Cash and cash equivalents:		
Beginning	920,489	1,214,405
Ending	\$ 2,332,714	\$ 1,109,414

See accompanying notes

Table of Contents**CKX Lands, Inc.****Statement of Changes in Stockholders' Equity****Nine Months Ended September 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	\$ 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)		
Total comprehensive income	\$ 1,032,160				
Dividends		(602,622)			
Balance, September 30, 2005		\$ 8,675,592	\$ 25,229	\$ 72,256	\$ 375,516

Nine Months Ended September 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	\$ 1,164,100	1,164,100			
Other comprehensive income:					
Unrealized holdings gain occurring during period net of taxes of \$39,947	90,078		90,078		
Total comprehensive income	\$ 1,074,022				
Dividends		(602,170)			
Balance, September 30, 2006		\$ 9,604,900	\$ 121,580	\$ 72,256	\$ 375,516

See accompanying notes

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CKX Lands, Inc.

Notes to Financial Statements

September 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, 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

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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.

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Results of Operations

Revenue

Revenue for the first nine months of 2006 was \$1,984,230 an increase of \$77,934 or 4.01% over the first nine months of 2005. Revenue for the quarter ended September 30, 2006 was \$623,061 or 5.3% decline from the corresponding quarter of 2005. Revenues from agriculture for the first nine months of 2006 were approximately the same as for the first nine months of 2005. Timber income was up \$91,427 during the first nine months of 2006 compared to the same period in 2005. In 2005 income was decreased by Hurricane Rita and part of the income in 2006 was from salvaging trees downed by Hurricane Rita. Oil and gas income was down in 2006 over 2005 for both the first nine months and the third 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.

	Nine Months Ended	Nine Months Ended
	September 30, 2006	September 30, 2005
Oil Income	\$ 626,899	\$ 508,020
Barrels produced	10,067	14,144
Average price per barrel	\$ 62.28	\$ 50.08
Gas income	\$ 620,145	\$ 653,010
MCF produced	77,169	84,239
Average price per mcf	\$ 8.04	\$ 7.75

Increased oil and gas prices from 2005 to 2006 more than offset decreased production from depleting fields. Total oil and gas income for the first nine months of 2006 decreased \$8,318, from the first nine months of 2005 due to a decrease of \$113,989 in lease income.

The third quarter of 2006 reflects \$43,502 in oil and gas income from a new well in South Lake Charles. Mayne & Mertz has completed the Walker 22 #1 well currently producing 4,000 mcf of gas and 232 barrels of oil per day in the Bon Air Field. CKX owns approximately 2.9% of the income which will begin to be received in the fourth quarter of 2006. Mayne & Mertz has subsequently completed CKX Lands, Inc. #1 in the same field but it has yet to be tested and income is not expected until 2007. The Company will own approximately 3.9% of this production.

Walker Louisiana Properties had executed a buy-sell agreement for twenty acres on Southpark Road at \$20,000 per acre. The purchase option expired in October, 2006 and the prospective purchasers forfeited their deposit.

Operating Expenses

Operating expenses decreased \$37,738 or 8.5% during the first nine months of 2006 over the same period in 2005. The general and administrative expenses decreased by \$3,490 compared to the first nine months of 2005.

Income

Net income after taxes for the quarter ended September 30, 2006 decreased \$21,548 or 5.84% less than the third quarter of 2005. Net income after tax for the first nine months of 2006 was \$106,388 higher than in 2005, and income from operations was \$115,672 higher in 2006 than in 2005.

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Financial Condition

Current assets plus securities available for sale totaled \$5,367,108 on September 30, 2006, compared with \$4,281,582 on September 30, 2005. Total current liabilities were \$299,947 on September 30, 2006, compared to \$234,057 on September 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.

The Company declared the normal seven cents per common share during the quarter ended September 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 September 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.

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

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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 9, 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