CKX Lands Inc
Form 10QSB
November 09, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**
For the transition period from ______ to ______

Commission file number 1-31905

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.)**

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 x No ¨

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

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 x

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CKX Lands, Inc.

Form 10-QSB

For the Quarter Ended September 30, 2007

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Exhibits				

Certification of Arthur Hollins, III, 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.

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Part I. Financial Information

Item 1. Financial Statements

CKX Lands, Inc.

Balance Sheet

		September 30, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$	1,219,935
Certificate of deposit		1,025,204
Accounts receivable		665,038
Prepaid expense and other assets		26,116
Total Current Assets		2,936,293
Securities Available for Sale		2,073,233
Property and Equipment:		
Building and equipment less accumulated depreciation of $96,804		81,641
Timber less accumulated depletion of $471,209		386,777
Land		4,049,355
Total Property and Equipment, net		4,517,773
Total Assets	$	9,527,299
Liabilities and Stockholders Equity		
Current Liabilities:		
Trade payables and accrued expenses	$	86,551
Dividends payable		135,975
Income tax payable:		
Current		162,557
Deferred		111,978
Total Current Liabilities		497,061
Noncurrent Liabilities:		
Deferred income tax payable		187,321
Stockholders Equity:		
Common stock, no par value: 3,000,000 shares authorized;		
2,100,000 shares issued		72,256
Retained earnings		9,028,589
Accumulated other comprehensive income		117,588
Less cost of treasury stock (157,505 shares)		(375,516)
Total stockholders equity		8,842,917
Total Liabilities and Stockholders Equity	$	9,527,299

See accompanying notes

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CKX Lands, Inc.

Statements of Income

	Quarter Ending September 30, 2007	Quarter Ending September 30, 2006	Nine Months Ending September 30, 2007	Nine Months Ending September 30, 2006
Revenues:				
Oil and gas	$ 898,974	$ 497,302	$ 2,270,130	$ 1,716,158
Agriculture	73,655	50,545	175,384	124,803
Timber	65,525	75,214	99,160	143,269
Total revenues	1,038,154	623,061	2,544,674	1,984,230
Costs and Expenses:				
Oil and gas production	73,230	24,580	189,078	86,747
Agriculture	1,901	952	32,569	2,640
Timber	24,687	14,245	33,907	21,901
General and administrative	154,913	70,416	375,642	265,668
Depreciation and depletion	30,754	10,617	40,037	29,485
Total cost and expenses	285,485	120,810	671,233	406,441
Income from operations	752,669	502,251	1,873,441	1,577,789
Other Income / (Expense):				
Interest income	31,448	19,028	81,021	93,988
Dividend income	9,189	6,427	26,173	32,628
Gain / (loss) on sale of securities available for sale		7,589	(3,446)	7,589
Gain on sale of land		429	302,008	6,457
Net other income / (expense)	40,637	33,473	405,756	140,662
Income before income taxes	793,306	535,724	2,279,197	1,718,451
Federal and state income taxes:				
Current	354,017	188,088	721,614	554,351
Deferred	(104,414)		16,077	
Total income taxes	249,603	188,088	737,691	554,351
Net Income	$ 543,703	$ 347,636	$ 1,541,506	$ 1,164,100
Per Common Stock (1,942,495 shares):				
Net Income	$ 0.28	$ 0.18	$ 0.79	$ 0.60
Dividends	$ 0.07	$ 0.07	$ 0.21	$ 0.31

See accompanying notes

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CKX Lands, Inc.

Statements of Changes in Stockholders Equity

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 Loss 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)			
September 30, 2007 Balance		$ 9,028,589	$ 117,588	$ 72,256	$ 375,516

Nine Months Ended September 30, 2006:

	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Capital Stock Issued	Treasury Stock
December 31, 2005 Balance		$ 9,042,970	$ 31,502	$ 72,256	$ 375,516
Comprehensive income:					
Net income	$ 1,164,100	1,164,100			
Other comprehensive income:					
Unrealized net holdings gains occurring during period net of taxes of $ 13,509	90,078		90,078		
Total comprehensive income	$ 1,074,022				
Dividends		(602,170)			
September 30, 2006 Balance		$ 9,604,900	$ 121,580	$ 72,256	$ 375,516

See accompanying notes

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CKX Lands, Inc.

Statements of Cash Flows

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash Flows From Operating Activities:		
Net Income	$ 1,541,506	$ 1,164,100
Less non-cash (income) expenses included in net income:		
Depreciation, depletion and amortization	40,037	27,200
Deferred income tax expense	16,077	
Less non-operating activities:		
Loss from sale of securities available for sale	3,446	(7,589)
(Gain) from sale of land	(302,008)	(6,457)
Change in operating assets and liabilities:		
(Increase) decrease in current assets	41,118	48,713
Increase (decrease) in current liabilities	218,155	31,815
Net cash provided from operating activities	1,558,331	1,257,782
Cash Flows From Investing Activities:		
Proceeds from sale of land		6,456
Purchase of property and/or equipment	(72,085)	(99,842)
Proceeds from certificate of deposits maturities	1,511,713	`
Purchase of certificate of deposit	(1,025,204)	`
Available for sale securities:		
Proceeds	1,981,094	1,361,712
Purchases	(1,468,488)	(511,713)
Net cash provided from investing activities	927,030	756,613
Cash Flows From Financing Activities		
Dividends paid net of refunds	(2,350,419)	(602,170)
Net cash used in financing activities	(2,350,419)	(602,170)
Net increase in cash and cash equivalents	134,942	1,412,225
Cash and cash equivalents:		
Beginning	1,084,993	920,489
Ending	$ 1,219,935	$ 2,332,714

See accompanying notes

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CKX Lands, Inc.

Notes to Financial Statements

September 30, 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. Form 10-KSB for the fiscal year ended December 31, 2006.

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 polices:

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

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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. 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 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.

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Note 5. Sale of Land:
On April 30, 2007, Walker Louisiana Properties completed the sale of 100 subdivision acres in Calcasieu Parish, Louisiana for $1,912,050. The land had an original cost of $100,000. The Company owns a one-sixth interest in this land and reported a gain from this sale of $302,008. This transaction was structured as a deferred exchange using a qualified intermediary pursuant to Paragraph 1031 of the Internal Revenue Code (1031 Exchange). At September 30, 2007, Walker Louisiana Properties estimated that approximately $333,800 in 1031 Exchange property purchases had occurred. Based on this information and expiration of the 1031 exchange property purchase period, a $265,935 receivable from Walker Louisiana Properties and a $52,719 purchase of land have been recorded. Due to this tax structure, current federal and state income taxes of $99,717 and non-current federal and state deferred income taxes of $21,088 have been recorded.

Note 6. Subsequent Event:
On July 3, 2007, the Company entered into a contract to sell approximately 3,495 agricultural acres and certain equipment assets in Cameron Parish, Louisiana for approximately $3,146,310. The land has an original cost of approximately $1,678,281 and the equipment has a net book value of approximately $85,600. The Purchaser may terminate this sale, if Purchaser, in its sole discretion, concludes that the Property is not suitable for Purchaser s contemplated use of the land as a bottomland hardwood/cypress mitigation site and for real estate development. This land represents over 41% of the total land value held by the Company and over 25% of the total net acres held by the Company. Due to the materiality of this transaction, a copy of the executed Contract has been included as Exhibit 10 to the Company s Form 10-QSB for the quarter ended June 30, 2007. The Company receives annual net agricultural revenue from this property of less than $50,000 per year. No other revenue is generated from this property. Mr. William Gray Stream, Company Director, is affiliated with the Purchaser.

On October 24, 2007, the Company completed the sale of this property. The final sales price of the property was $3,202,047. The increase in the final sales price was due an increase in acreage based on a property survey. The net proceeds of the sale, $3,176,458, have been transferred to a qualified intermediary and the Company is currently searching and evaluating properties for a 1031 exchange transactions.

Note 7. Contingencies:
There are no material contingencies known to management. The Company does not participate in off balance sheet arrangements.

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Item 2. Management s Discussion and Analysis or Plan of Operations

Results of Operations

Revenue

Revenue for the first nine months of 2007 was $2,544,674, an increase of $560,444 or 28.2% over the first nine months of 2006. Oil and gas income exceed 2006 by $553,972. As illustrated in the schedule below, average barrels and MCF produced and average price per barrel and MCF were higher in 2007.

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Oil Income	$ 1,261,075	$ 626,899
Barrels produced	19,602	10,067
Average price per barrel	$ 64.33	$ 62.28
Gas income	$ 1,009,054	$ 620,145
MCF produced	124,266	77,169
Average price per MCF	$ 8.12	$ 8.04

The increase in both oil and gas production was due to new fields and new wells within existing fields that more than offset 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, 2007 are as follows:

Production Company	Oil	Barrels	Gas	MCF
Mayne & Mertz	$ 273,589	4,256	$ 203,618	24,343
Cox & Perkins	204,032	3,392	39,087	4,419
Riceland Petroleum	58,280	959	102,310	12,484
Swift Energy	117,223	1,707	34,161	4,306
Unit Petroleum	17,151	135	45,562	5,541
	$ 670,275	10,449	$ 424,738	51,093

Costs and Expenses

Operating expenses increased by $264,792 or 65.1% during the nine months ended September 30, 2007 over the same period in 2006. Oil and gas production costs increased by $102,331 which is directly related to the increase in associated oil and gas revenues. Agricultural costs increased by $29,929 over the nine months ended September 30, 2006 primarily due to repairs to water well pumps. Timber costs increased by $12,006 due to higher forester maintenance expenses. General and administrative expenses increased by $109,974 due to the recognition timing and increase in auditing, insurance and certain other expenses.

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Gain on Sale of Land

On April 30, 2007, Walker Louisiana Properties completed the sale of 100 subdivision acres in Calcasieu Parish, Louisiana for $1,912,050. The land had an original cost of $100,000. The Company owns a one-sixth interest in this land and reported a gain from this sale of $302,008. This transaction was structured as a deferred exchange using a qualified intermediary pursuant to Paragraph 1031 of the Internal Revenue Code (1031 Exchange). At September 30, 2007, Walker Louisiana Properties estimated that approximately $333,800 in 1031 Exchange property purchases had occurred. Based on this information and expiration of the 1031 exchange property purchase period, a $265,935 receivable from Walker Louisiana Properties and a $52,719 purchase of land have been recorded. Due to this tax structure, current federal and state income taxes of $99,717 and non-current federal and state deferred income taxes of $21,088 have been recorded.

Financial Condition

Current assets plus securities available for sale totaled $5,009,526 at September 30, 2007, compared with $5,625,409 at December 31, 2006 and $5,367,108 at September 30, 2006. Total liabilities were $684,382 at September 30, 2007, compared to $2,404,405 at December 31, 2006 and $466,780 at September 30, 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 September 30, 2007. 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 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 September 30, 2007. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

There has been no change in the Company s internal control over financial reporting during the quarter ending September 30, 2007 that has materially affected, or is reasonably likely to affect, the Company s internal control over financial reporting.

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Part II. Other Information

Item 1 4. Not Applicable

Item 5. Other Information.

Sale of Land to Related Party

On July 3, 2007, the Company entered into a contract to sell approximately 3,495 agricultural acres and certain equipment assets in Cameron Parish, Louisiana for approximately $3,146,310. The land has an original cost of approximately $1,678,281 and the equipment has a net book value of approximately $85,600. The Purchaser may terminate this sale, if Purchaser, in its sole discretion, concludes that the Property is not suitable for Purchaser s contemplated use of the land as a bottomland hardwood/cypress mitigation site and for real estate development. This land represents over 41% of the total land value held by the Company and over 25% of the total net acres held by the Company. Due to the materiality of this transaction, a copy of the executed Contract has been included as Exhibit 10 to the Company s Form 10-QSB for the quarter ended June 30, 2007. The Company receives annual net agricultural revenue from this property of less than $50,000 per year. No other revenue is generated from this property. Mr. William Gray Stream, Company Director, is affiliated with the Purchaser.

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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 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.

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Signature

In accordance with the requirements of the Exchange Act, the registrant causes this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CKX Lands, Inc.
Date: November 7, 2007	/s/ Arthur Hollins, III Arthur Hollins, III President and Chief Executive Officer
Date: November 7, 2007	/s/ Brian R. Jones Brian R. Jones Treasurer and Chief Financial Officer