

CKX LANDS, INC.
Form 10-Q
November 12, 2013
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2013**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

Commission File Number **1-31905**

CKX Lands, Inc.

(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of incorporation)

72-0144530
(I.R.S. Employer Identification No.)

or organization)

1508 Hodges Street
Lake Charles, LA

(Address of principal executive offices)

70601

(Zip Code)

(337) 493-2399

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: **1,942,495**

CKX Lands, Inc.

Form 10-Q

For the Quarter ended September 30, 2013

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Part I – Financial Information**Item 1. FINANCIAL STATEMENTS****CKX Lands, Inc.****Balance Sheets****September 30, 2013 and December 31, 2012**

	(Unaudited)	
	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	\$4,509,837	\$5,832,167
Certificates of deposit	2,421,000	741,384
Accounts receivable	272,645	260,989
Prepaid expense and other assets	101,874	68,081
Total current assets	7,305,356	6,902,621
Property and equipment:		
Building and equipment less accumulated depreciation of \$82,519 and \$77,504, respectively	7,913	12,928
Timber less accumulated depletion of \$712,056 and \$700,564, respectively	1,226,797	1,235,790
Land	4,434,081	4,434,081
Total property and equipment, net	5,668,791	5,682,799
Total assets	\$12,974,147	\$12,585,420
Liabilities and Stockholders' Equity		
Current Liabilities:		
Trade payables and accrued expenses	\$83,842	\$40,874
Total current liabilities	83,842	40,874
Deferred income tax payable	181,818	181,818
Total liabilities	265,660	222,692
Stockholders' Equity:		
Common stock, no par value: 3,000,000 shares authorized; 2,100,000 shares issued	72,256	72,256
Retained earnings	13,011,747	12,665,988
Less cost of treasury stock (157,505 shares)	(375,516)	(375,516)
Total stockholders' equity	12,708,487	12,362,728
Total liabilities and stockholders' equity	\$12,974,147	\$12,585,420

The accompanying notes are an integral part of these financial statements.

CKX Lands, Inc.**Statements of Income****Quarter and Nine Months Ended September 30, 2013 and 2012****(Unaudited)**

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Oil and gas	\$521,256	\$676,782	\$1,368,261	\$2,102,106
Surface	33,561	17,379	122,988	327,422
Timber	27,584	32,499	82,724	37,504
Total revenues	582,401	726,660	1,573,973	2,467,032
Costs and Expenses:				
Oil and gas production	33,339	60,672	85,856	183,651
Agriculture	648	2,098	1,470	3,952
Timber	7,537	13,717	23,486	27,943
General and administrative	122,679	127,101	378,090	344,070
Depreciation and depletion	1,671	4,777	16,507	8,507
Total cost and expenses	165,874	208,365	505,409	568,123
Income from operations	416,527	518,295	1,068,564	1,898,909
Other Income / (Expense):				
Interest income	4,901	4,712	12,915	10,010
Dividend income	--	--	--	--
Gain/(Loss) on securities available-for-sale				
Gain on sale of land and other assets	--	--	--	124,000
Net other income / (expense)	4,901	4,712	12,915	134,010
Income before income taxes	421,428	523,007	1,081,479	2,032,919
Federal and State Income Taxes:				
Current	127,737	162,848	327,796	648,173
Deferred	--	3,003	--	(2,828)
Total income taxes	127,737	165,851	327,796	645,345
Net income	\$293,691	\$357,156	\$753,683	\$1,387,574
Per Common Stock (1,942,495 shares):				
Net Income	\$0.15	\$0.18	\$0.39	\$0.71
Dividends	\$0.07	\$0.07	\$0.21	\$0.21

The accompanying notes are an integral part of these financial statements.

CKX Lands, Inc.

Statements of Stockholders' Equity

Nine Months Ended September 30, 2013 and 2012

(Unaudited)

Nine Months Ended September 30, 2013:

	Total	Retained Earnings	Capital Stock Issued	Treasury Stock
December 31, 2012 Balance	\$ 12,362,728	\$ 12,665,988	\$ 72,256	\$ 375,516
Net income	753,683	753,683	--	--
Dividends	(407,924)	(407,924)	--	--
September 30, 2013 Balance	\$ 12,708,487	\$ 13,011,747	\$ 72,256	\$ 375,516

Nine Months Ended September 30, 2012:

	Total	Retained Earnings	Capital Stock Issued	Treasury Stock
December 31, 2011 Balance	\$ 10,661,917	\$ 10,965,177	\$ 72,256	\$ 375,516
Net Income	1,387,574	1,387,574	--	--
Dividends	(407,924)	(407,924)	--	--
Dividend reversion	8,113	8,113	--	--
September 30, 2012 Balance	\$ 11,649,680	\$ 11,952,940	\$ 72,256	\$ 375,516

The accompanying notes are an integral part of these financial statements.

CKX Lands, Inc.**Statements of Cash Flows****Nine Months Ended September 30, 2013 and 2012****(Unaudited)**

	2013	2012
Cash Flows From Operating Activities:		
Net Income	\$753,683	\$1,387,574
Less non-cash (income) expenses included in net income:		
Depreciation, depletion and amortization	16,507	8,507
Deferred income tax expense	--	(2,828)
Less non-operating activities:		
Gain from sale of land and other assets	--	(124,000)
Change in operating assets and liabilities:		
(Increase) decrease in current assets	(45,449)	(94,748)
Increase (decrease) in current liabilities	42,968	(47,519)
Net cash provided from operating activities	767,709	1,126,986
Cash Flows From Investing Activities:		
Certificates of deposit:		
Maturity proceeds	741,384	495,625
Purchases	(2,421,000)	(261,384)
Land, timber, equipment and other assets:		
Sales proceeds	--	159,000
Purchases	(2,499)	(136,221)
Net cash provided from (used in) investing activities	(1,682,115)	257,020
Cash Flows From Financing Activities:		
Dividends paid, net of reversion	(407,924)	(399,811)
Net cash used in financing activities	(407,924)	(399,811)
Net increase (decrease) in cash and cash equivalents	(1,322,330)	984,195
Cash and cash equivalents:		
Beginning	5,832,167	4,124,908
Ending	\$4,509,837	\$5,109,103
<u>Supplemental disclosures of cash flow information:</u>		
Cash payments for:		
Interest	\$--	\$--
Income taxes	\$328,305	\$781,641
<u>Supplemental schedule of non-cash investing and financing activities:</u>		
	\$--	\$--

Net change in recognized and unrecognized unrealized gains (losses) on available-for-sale securities

The accompanying notes are an integral part of these financial statements.

CKX Lands, Inc.

Notes to Financial Statements

September 30, 2013

(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited financial statements of CKX Lands, Inc. ("Company") have been prepared in accordance with United States generally accepted accounting principles for interim financial information. They do not include all information and footnotes required by United States generally accepted accounting principles for complete financial statements. Except as described herein, there has been no material change in the information disclosed in the notes to the financial statements included in our financial statements as of and for the year ended December 31, 2012. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying financial statements.

Interim results are not necessarily indicative of results for a full year. These financial statements and accompanying notes should be read in conjunction with the Company's Form 10-K for the year ended December 31, 2012 and Form 10-Q for the quarter ended September 30, 2013.

Note 2: Recently Adopted Accounting Pronouncements

In 2012, we adopted Accounting Standards Update (ASU) 2011-05 which requires the presentation of the components of net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity.

Note 3: Income Taxes:

In accordance with generally accepted accounting principles, the Company has analyzed its filing positions in federal and state income tax returns that remain subject to examination, generally three years after filing. The Company believes that all filing positions are highly certain and that all income tax filing positions and deductions would be

sustained upon a taxing jurisdiction's audit. Therefore, no reserve for uncertain tax positions is required. No interest or penalties have been levied against the Company and none are anticipated.

Note 4: Land Sale:

During the first quarter of 2012, the Company sold 80 acres of land for \$160,000 and reported a gain of \$124,000. At March 31, 2012, this transaction was structured as a "deferred exchange using a qualified intermediary" pursuant to Paragraph 1031 of the Internal Revenue Code (1031 Exchange) for income tax purposes and as such the gain of \$124,000 was deferred for income tax purposes. During July, 2012, the Company determined that it would not be able to complete the 1031 Exchange and the \$159,000 held by the intermediary was returned to the Company. At June 30, 2012, the Company recorded the \$124,000 gain as current for income tax purposes.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Revenue

Revenues for the first nine months of 2013 decreased by \$893,059 from the revenues for the first nine months of 2012 to \$1,573,973.

Oil and gas revenues decreased by \$733,845 to \$1,368,261 in 2013. Oil and gas revenues consist of royalty, lease rental and geophysical revenue. Royalty revenue decreased by \$671,418 and lease rentals decreased by \$7,384 and geophysical revenues decreased by \$55,043 from 2012.

Gas production decreased by 25,899 MCF, and the average gas sales price per MCF increased by 30.9% resulting in a decrease in gas revenue of \$51,004. Revenue from oil production decreased by \$583,720, due to a decrease of 1.72% in the average barrel sales price and a decrease in production of approximately 5,329 barrels. Revenues from plant products decreased by \$36,694 from 2012 revenues.

The following schedule summarizes barrels and MCF produced and average price per barrel and per MCF.

	Nine Months	Nine Months
	Ended	Ended
	09/30/13	09/30/12
Net gas produced (MCF)	34,306	60,206
Average gas sales price (per MCF) ⁽¹⁾	\$4.37	\$3.34
Net oil produced (Bbl) ⁽²⁾	9,744	15,074

Average oil sales price (per Bbl)^(1,2) \$ 104.38 \$ 106.20

Notes to above schedule:

⁽¹⁾ Before deduction of production and severance taxes.

⁽²⁾ Excludes plant products.

Timber revenue increased from \$37,504 to \$82,724 in 2013. Timber sales have been the result of timber damage from several right of way agreements, primarily pipelines. Generally, the Company has elected to only harvest timber for internal maintenance programs for age class timber and storm protection measures due to past depressed timber prices. The Company has noted recent improvements in timber prices and is currently marketing its timber on approximately 350 acres.

Surface revenue consists of agriculture, right of ways, hunting leases and other types of revenues resulting from the lease or other use of our land surface. Surface revenues decreased from \$327,422 to \$122,988 in 2013, primarily due to a large 2012 non-recurring pipeline right of way agreement.

Costs and Expenses

Oil and gas production costs, primarily severance taxes, decreased by \$97,795 in 2013 due to decreased oil and gas revenues and new production which is exempt from severance tax until well costs are recovered.

Depletion increased by \$8,000 which was related to the increase in timber sales noted above.

General and administrative expenses increased by \$34,020 primarily due to an increase in property management expenses which the Company does not expect to be recurring.

Other costs and expenses incurred for the nine months ended September 30, 2013 were generally flat from 2012 reported amounts.

Subsequent to September 30, 2013, the Company purchased 120 acres in southwest Louisiana. Approximately 80 acres of this land holds pine timber aged from 20 to 40 years.

Financial Condition

Current assets totaled \$7,305,356 and total liabilities equaled \$265,660 at September 30, 2013. Management believes available cash and investments together with funds generated from operations should be sufficient to meet operating requirements and provide funds for strategic acquisitions. Additional sources of liquidity include an available bank line of credit which the Company increased from \$1,000,000 to \$5,000,000 during the quarter ended June 30, 2013.

The Company declared and paid another seven cents per common share during the quarter ended September 30, 2013. It is anticipated that the Company will be able to continue paying a seven cents per common share dividend each 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 forward-looking statements. 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 discussed below, which, among others, should be considered in evaluating the Company's financial outlook.

Revenues from oil and gas provide a significant portion of the Company's net income and cash flow. All of these revenues come from wells operated by other companies on property owned by CKX Lands, Inc. Consequently, these revenues fluctuate due to changes in oil and gas prices and changes in the operations of these other companies.

Item 3. Not applicable.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of the Company's management, including the President, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by the report.

Changes in Internal Control over Financial Reporting

There were no significant changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the quarter covered by this report.

Part II. Other Information

Item 1 – 5 Not Applicable

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-Q for the quarter ended March 31, 2013.

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 Certification of Brian R. Jones, President and Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

32 Certification of President and Treasurer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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.

CKX Lands, Inc.

Date: November 7, 2013

/s/ Brian R. Jones
Brian R. Jones
President and Treasurer

